

AMERICAN BANKERS

Association

JOURNAL

NOVEMBER 17, 1927



Price
25 cents

Too Much Money!



A CHECK WRITER AND A CERTIFIER AT THE PRICE OF ONE MACHINE

*The BANK MODEL
F & E Lightning
Check Writer*



CONFORMS WITH
CLEARING HOUSE
REQUIREMENTS.



Typical Amount Line and Certification Notice

THE Bank Model is both a Check Writer and a Certifier, having been designed for the dual purpose of imprinting checks and drafts, and also for certifying.

It gives the banker use of two indispensable machines at the cost of only one.

Amount line imprints the word 'PAY' or an INDIVIDUAL name before the \$ portion. The Certification Plate imprints bank's regular certification or acceptance notice.

PAY \$529 AND 65 CTS

REGULAR DIE

FIRST NAT. BK. OF CHICAGO \$529 AND 65 CTS

INDIVIDUAL DIE

WRITE FOR DESCRIPTIVE LITERATURE AND PRICE

THE HEDMAN MANUFACTURING COMPANY
1158 CENTER STREET CHICAGO



AMERICAN BANKERS ASSOCIATION JOURNAL

The Day of Broad Bank Service

The Houston Convention of the American Bankers Association
Points the Way to Adjust Banking to Changing Conditions.
Simple Form of Clearing House Examination Urged as Means
of Checking Failures. Reorganization Along Functional Lines.

POINTING the way to adjusting banking to changing conditions, the 53rd annual convention of the American Bankers Association at Houston on Oct. 24-27 promises to be notable for the forward looking measures taken to keep banking apace with the ever-increasing perplexities of modern business. More than 4000 bankers from all parts of the United States participated in the sessions of the Association, which were marked by harmonious discussion of ways and means to improve banking standards and practice.

On all sides the admission was made that the character of banking is changing and the day of broadening banking service is at hand. The greater part of the convention's deliberations was devoted to consideration of how banks—and particularly the smaller institutions—could best meet this need of supplying its customers with all of the modern financial services.

SQUARELY facing the record of more than 3000 bank failures during the past six years, the convention considered the report of the Economic Policy Commission, dealing with the causes and proposed remedies, and took formal action designed to reduce the future number of financial catastrophes.

The most potent cause of bank failures was declared to be the excessive number of banks, and it was suggested that this situation could be partially corrected by raising the capital requirements and limiting the issuance of new charters to the real needs of every community. Expressing the belief that safety in banking lies in the proper enforcement of the present laws rather than in adding further legislative restrictions on loans and investments, the Association urged reliance in proper supervision as the best means of achieving this security.

The proposal that stood out as a constructive suggestion was that the clearing house examination system, which has worked with striking success in 33 of the

major American cities, be extended on a simple scale to the country districts. The basic feature is the organization of all banks, both state and national, in regional groups of from 50 to 100 banks with the object of improving and making more effective use of the present system of state and national supervision. The examiners are to be assigned for a period of at least two or three years to this definite area, and the reports of examination are to be considered with the directors of the banks before they are forwarded to the office of the Comptroller of the Currency or the State Bank Commissioner. It is believed that a permanent examiner of the state banks, working with the cooperation of the national examiners, with intimate knowledge of local conditions and personalities, would readily know the real worth of all the paper in the note case, and thus would be in a position to correct unsound banking policies before they could threaten the solvency of the bank. As an additional feature, it is proposed that a carefully chosen committee from the banks in the regional association be authorized to receive representations from the examiner regarding unsatisfactory conditions in a bank, which have not been corrected at his suggestion by its officers and directors.

Noting that seventy banks in eastern Nebraska had recently set up a pioneer organization of this kind, Evans Woollen, Chairman of the Economic Policy Commission, told the convention that this step might well prove to be "the beginning of an improvement of vast consequence in the conduct of banking throughout the country."

THE opening move was made to reorganize the American Bankers Association along functional lines so that it may better serve the present day bank.

Since the Association was formed, more than a half century ago, the resources of banks have grown to be twenty times as large as they then were. Banks no longer confine themselves to a single sphere, such as

was true in former years when national banks were limited to commercial banking, savings banks were confined to handling savings deposits and trust companies were virtually alone qualified to act in fiduciary capacities. The passage of the McFadden bill gave full sanction to the performance of all these functions—and more—by the national banks, so the modern-day bank, no matter whether its charter has been granted by the state or federal authorities, is getting to be a veritable department store of finance.

In the opinion of Melvin A. Traylor, the retiring president of the American Bankers Association, the Association might with profit be reorganized in the same modern fashion as the modern banks of this era.

How Movement Started

THE matter came before the convention officially at the first general session, when it was announced that the Executive Council had directed the President to appoint a committee, composed of the new presidents of divisions and sections, to consider the possibility of a revision of the organization of the American Bankers Association along function lines. As his last official act, President Traylor appointed the following committee: Walter S. McLucas, chairman of the board of the Commercial Trust Company of Kansas City, Mo., and President of the Trust Company Division, Chairman; M. H. Malott, president of the Citizens Bank, Abilene, Kan., and President of the State Bank Division of the Association; E. A. Onthank, president of the Safety Fund National Bank, Fitchburg, Mass., and President of the National Bank Division; George L. Woodward, treasurer of the South Norwalk Savings Bank, South Norwalk, Conn., and President of the Savings Bank Division, and O. Howard Wolfe, cashier of the Philadelphia-Girard National Bank of Philadelphia, and President of the Clearing House Section.

President Traylor said of its duties that they were "the most important that have devolved upon a committee of the Association during the time I have been a member."

"We shall have," Mr. Traylor remarked, in contemplation of the proposed change, "a Commercial Department in which any member of the American Bankers Association may voice his sentiments with respect to any problem of commercial banking, whether he be state banker, national banker, trust banker or savings banker; because most, if not all, of those engaged in either of these respective lines of banking are also commercial bankers, and likewise we will have a Trust Department in which national bankers, state bankers, or anyone else may likewise appear and act as a member. The same will be true of the State Bank Department, the Savings Bank Department and the same with respect to the Investment Banking Department. That is a basis, as I conceive it, of modernization of organization toward which we should work, because to my mind it is perfectly obvious that any banker, who is practicing in his business each of these functions, shall be assigned to one or another of the divisions of the Association and be enabled to participate as an active member in the other divisions, though equally interested in them."



Houston produced a new dollar sign as a mark of welcome to the visiting bankers. The whole business district was illuminated at night to impress the visitors with the warmth of the southwest's welcome

President Sounds Keynote

IN his opening address, President Traylor expressed a note of confidence in the ability of the American bankers to become the intelligent custodians of the world's credit, but warned against any inept tinkering with it. He discussed a wide range of subjects, observing that the Dawes plan had worked successfully thus far; that foreign investments had become the concern of every man, banker and investor alike, whether it pleased them or not; that while all were united in the hope that relief would be found for the farmer, the way to it had not yet appeared, and that no alarm should be expressed over the burden of taxes because of the benefits the country was enjoying because of them.

Mr. Traylor took a vigorous stand against tinkering with the Federal Reserve Act and the present federal banking laws. While the Federal Reserve System may need smoother administration and perhaps strengthening, there is no reason for any fundamental changes in the Federal Reserve Act, in his opinion, and it should be given a thorough trial.

In concluding his remarks and looking to the future, Mr. Traylor urged a revival of genuine tolerance, a fresh baptism of faith, and expressed the hope that

"We may be rich without forgetting to be righteous; that we may have leisure without license; that we may be powerful without being offensively proud; that we may be nationally minded without being narrow minded, and that we may live in a world of fact without surrendering our faith."

How Bankers Stand on Public Questions

IN adopting resolutions, the American Bankers Association recommended that, in the event that the income tax law should be revised, "special consideration be given to the tax now levied on corporations with a view to reducing it greatly," banks would share in any reduction in the Federal income

tax. It approved the limitation contained in Section 5219 of the U. S. Revised Statutes, which declares that national banks shall not be taxed more heavily than moneyed capital in the hands of individuals, and urged that it be retained without any modification. This law, it declared, is a wise one and has protected state banks as well as national banks.

On flood control, the convention declared that the Congress of the United States should take prompt action to provide for the necessary works to prevent the recurrence of floods such as took place in the Mississippi Valley earlier in the year, and stated that "the Federal Government should assume the sole responsibility for the financing, placing, building and operating the necessary works needed to bring about permanent relief."

Declaring that the country has been prosperous, although all lines have not enjoyed the same high level of prosperity in 1927 so characteristic of 1926, the bankers said that there is "nothing in recent developments to indicate that we are likely to have anything in the nature of a depression."

Strong emphasis was laid on the community of interest between bankers and farmers, it being declared that the prosperity of practically all bankers is dependent upon that of farming communities. The resolution reported that agricultural conditions are improving, though there is still much room for betterment.

The General Sessions

THE sessions of the divisions and sections were devoted to the practical problems of the banking business, but the general sessions were featured by stimulating and uplifting addresses by men of prominence. On the first day James Francis Burke, attorney of the Pittsburgh Chamber of Commerce and the Pittsburgh Clearing House Association, recounted in an impressive manner "The Fruits of Combined Capital." At the second general session Silas H. Strawn of Chicago, the president of the American Bar Association, cited some of the most important and momentous court decisions that affect banking in his address on "Within the Law." At the closing session Dr. James Westfall Thompson of the University of Chicago showed how heavily modern banking is indebted to the Europeans of several centuries past for contributions to the science of credit. All of these three addresses are published elsewhere in this issue.

Thomas Ross Preston, president of the Hamilton National Bank of Chattanooga, Tenn., was elected and installed as president of the American Bankers Association for 1927-28 at Houston. Craig B. Hazlewood, vice-president of the Union Trust Company of Chicago, was elevated to the first vice-presidency, while John G. Lonsdale, president of the National Bank of Commerce in St. Louis, was elected second vice-president. W. D. Longyear, vice-president of the Security Trust & Savings Bank of Los Angeles, was named as treasurer. By virtue of a constitutional amendment adopted at the convention, as treasurer Mr. Longyear becomes a member of the Executive Council and Administrative Committee.

The 1928 convention of the American Bankers Association will be held at Philadelphia, the invitation extended by the bankers of that city having been accepted.

The General Sessions of the Houston Convention

WHEN President Traylor sounded the gavel at 10:45 on the morning of Oct. 25 in the vast auditorium at Houston, the first general session of the Fifty-third Annual Convention of the American Bankers Association was called to order.

After invocation, and an announcement of the entertainment program, President Traylor delivered his presidential address. (It appears elsewhere in full in this issue.)

Executive Manager Fred N. Shepherd reported briefly the official acts of the Executive Council at its last three sessions. He enumerated several changes in the constitution of the American Bankers Association that had been approved by the membership, and read to the convention a proposed new amendment making the Treasurer of the Association, who has hitherto not officially sat with it, a member of the Administrative Committee and of the Executive Council. This proposal was formally presented to the Convention and adopted.

Announcement was made that the Executive Council had approved a clause in the standard form of trade acceptance and an appropriate amendment to the McFadden Act to correct an obvious omission and permit state bank members of the Federal Reserve System to establish branches in foreign countries equally as national banks are now permitted to do. The Council also announced the appointment of a committee to consider the possibility of a revision of the American Bankers Association along functional lines, and that it had voted to hold the 1928 Convention in Philadelphia.

Tribute to Mr. Traylor

AFTER a graceful introduction by President Traylor, James Francis Burke, general counsel of the Chamber of Commerce of Pittsburgh and of the Pittsburgh Clearing House Association, prefaced his address (given in this issue) on "A Few Fruits of Combined Capital," by repeating a tribute that Secretary of the Treasury Mellon had paid to the retiring President of the American Bankers Association.

"I cannot pass without observing the fact which has recently been written into American banking history and the commercial history of this Republic," Mr. Burke said, "that at the head of this organization there is a man whose virility, whose vision, whose energy and whose abilities justified my warm personal friend and fellow townsman, the Honorable Andrew A. Mellon, in making the statement that Melvin A. Traylor is one of the greatest bankers in America today."

Shortly before adjournment President Traylor appointed the Resolutions Committee, which was composed of the following: Thomas B. McAdams, Chairman; Burton M. Smith, Fred I. Kent, Evans Woollen, J. H. Puelicher, M. E. Holderness, E. A. Onthank, George L. Woodward, M. H. Malott, W. S. McLucas, Frank M. Totton, O. Howard Wolfe, William A. Philpott and Dr. Walter Lichtenstein.

The second general session, on Oct. 26, was featured by the address of Silas H.

Strawn of Chicago, the president of the American Bar Association. Before presenting Mr. Strawn, President Traylor said that bankers "depend upon our legal advisers, perhaps more thoroughly if we conduct our business properly, than do the business men of the country engaged in any other line or avocation."

Mr. Preston Named President

FOLLOWING the address, "Within the Law," Col. William G. Edens, vice-president of the Central Trust Company of Chicago, as chairman of the Nominating Committee, reported that it, by unanimous action, had recommended that Thomas R. Preston, president of the National Bank of Chattanooga, Tenn., be named as President; that Craig B. Hazlewood, vice-president of the Union Trust Company of Chicago, be elected First Vice-President and that John G. Lonsdale, president of the National Bank of Commerce of St. Louis, be named as Second Vice-President. In moving that they be duly elected, Colonel Edens said: "While the members of the committee did not tell me to say so, it is my humble judgment that this convention will find it very difficult to secure three better men for these jobs."

Evans Woollen, president of the Fletcher Savings and Trust Company of Indianapolis, Ind., as Chairman of the Economic Policy Commission, made a ten-minute report of the results of the study conducted by the commission as to the causes of bank failures. (The full text of the report appears elsewhere.)

In commenting on the report, Mr. Traylor said: "On the assumption that it is the desire of bankers to preserve the independent banking system of this country against the encroachment of any character, I believe that the work of the Commission and the remedies they have pointed out are the best contribution that has been made to our Association this year, because we as independent bankers cannot continue to defend a system which has lost one-eighth, approximately, of the membership through failures and insolvencies within a period of five years. We must clean house. I submit to you that we must save our own reputation."

Thomas B. McAdams, as Chairman of the Resolutions Committee, presented the resolutions setting forth the American bankers' views on general conditions, agriculture, flood relief, bank failures, foreign relations and other subjects. (The resolutions are printed in full elsewhere.)

A special resolution in memory of Charles W. Carey, President of the National Bank Division, who died at his home in Wichita, Kan., on the eve of the Houston convention, was offered. It read:

"The American Bankers Association records its sorrow and sense of irreparable loss in the death of Charles W. Carey, President of the National Bank Division. Beloved for his modesty and gentleness of spirit, he was admired for his ability as an executive and the dominating force of his personality. Faithful to every trust imposed upon him by the Division of which he was

a member, his clarity of judgment and his fidelity to duty made for him a respected place in the councils of this Association and the hearts of its members. It is peculiarly unfortunate that his illness and untimely death prevented his being the recipient of even greater honors. The sympathy of this body is conveyed to the members of his family and his associates in the business and banking life of Wichita and Kansas."

Standing Tribute Paid

THE entire convention stood in tribute to the memory of one of its outstanding leaders.

At the third general session Dr. James Westfall Thompson, Professor of History and Philosophy of the University of Chicago, addressed the Convention on "Early European Banking and Big Business," giving the historical background of modern banking, and showing that the international banker is not a product of the twentieth century, nor of the nineteenth.

The attention of the convention was directed by President Traylor to the fact that the Educational Foundation Fund needed \$60,542 to make up the full amount of \$500,000. He expressed hope that before Jan. 1, 1928, the sum would be collected.

To carry out the directions of the Executive Council, a committee was appointed by President Traylor to consider the possibility of revising the organization along functional lines. This was the last official act of Mr. Traylor before proceeding with the installation of the newly elected officers.

In turning over the gavel and the affairs of the Association to Thomas R. Preston, Mr. Traylor predicted a "wise, careful, considerate and sound administration" under the regime of his successor.

Mr. Preston Takes Charge

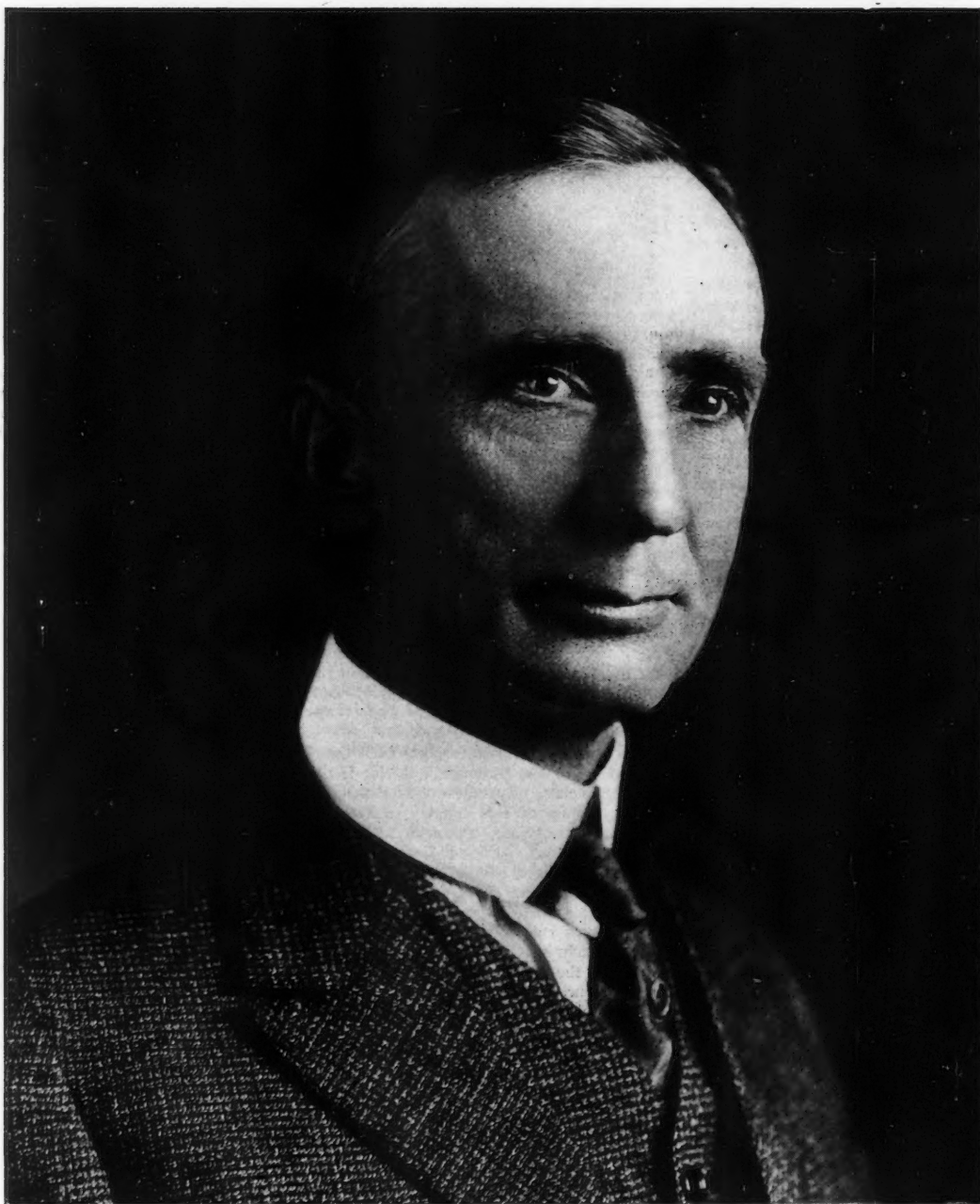
IN accepting the presidency Mr. Preston said: "I am quite aware of the difficult position that I occupy, following the splendid administration of Mr. Traylor. I have watched him at close range for two years, and I know the difficulties anyone would have in following him.

"A frank friend of mine said to me yesterday, 'You don't want to be lonesome, therefore do not take yourself seriously because no one else is going to do so.' So I am going to accept the advice of that keen and discriminating friend.

"I deeply appreciate the honor that you have conferred upon me. You have now given me the greatest honor within your gift. I hope I make few mistakes, but whether they be few or many, I will give to this Association the very best effort of which I am capable.

"It has been my happy luck for the last two years to follow the lead of Mr. Traylor and Mr. Wells, under whose guidance and direction the affairs of this Association never functioned more smoothly or more efficiently. I am also pleased that you have associated with us two distinguished gentlemen who

(Continued on page 407)



THOMAS R. PRESTON

*President Hamilton National Bank, Chattanooga, Tenn., Elected President of the
American Bankers Association at the Houston, Texas, Convention*

Foreign Investments Are the Concern of Every Banker

By MELVIN A. TRAYLOR

Retiring President American Bankers Association, and
President of the First Trust and Savings Bank, Chicago

Whether He Will or Not, Every Banker is Becoming Interested in Every Foreign Investment Because the Securities are Finding Lodgment in Every Community and Are Paid for With Bank Deposits. The Assaults Upon Things as They Are.

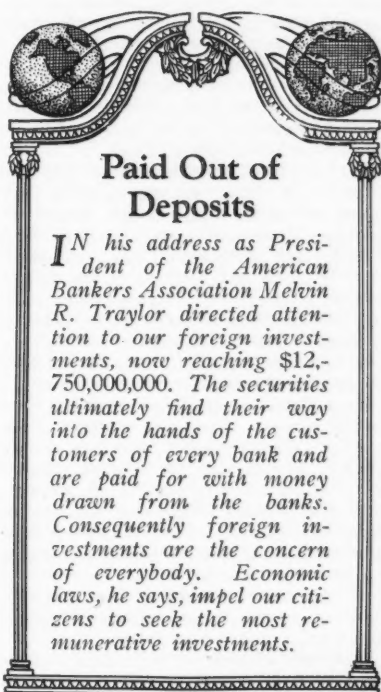
JUST why retiring presidents should not be permitted to slip away into that engulfing obscurity which seems to await an ever-growing army of Ex's, without being obliged by custom to punctuate their departure with an outburst of alleged wisdom I do not know. In this Association the custom seems to be as inexorable as it is inflexible, hence, confessing to a lack of sufficient courage to abandon it, I come now along the path followed by that long line of my illustrious predecessors, to submit herein a brief account of the work of the administration during the year now closing, together with certain comments and observations, perhaps neither germane nor pertinent to the problems of the day.

The business of the Association since your last convention has gone forward in an even and somewhat uneventful manner, reflecting the harmony and efficiency at headquarters, which is possible only in an organization where intelligence, experience and loyalty prevail. The work of the president during the year has been greatly minimized and made vastly more effective because of such a staff in the executive offices in New York. My grateful acknowledgment to them!

The Divisions, Sections and Committees, under the wise leadership of those in command, have in harmony and cooperation made real contributions to the solution of the everyday problems of our business. Much of the worth-while work of the Association is done by these smaller units, which seldom, I fear, are given the credit they deserve. They are the real points of contact between the individual member and the larger organization. They are the diagnosticians of our business and discoverers of the remedies for our ills.

Group Action and Group Responsibilities

THE ever-increasing complexities of the banking business seem to me more and more to justify our existence as an organization. Yet I sometimes wonder if we fully appreciate the powers and corresponding responsibilities of our group. This thought was forcibly brought to my mind recently by an address delivered by that leader of American business, Owen D. Young, on the occasion of the dedication of a group of new buildings comprising the George F. Baker Foundation of the Graduate School of Busi-



ness Administration of Harvard University. I can pay no more fitting tribute to the Dean of American Banking, the sole surviving member of the group of men who founded this Association, than to quote briefly from the address of Mr. Young, who in calling attention to the fact that this is the day of organizations, associations and group action, said:

"Let me say, however, that so far as the public is concerned, organized business has been quick to take the advantages of group action, but has been slow to assume group responsibilities. Too frequently business men have acquiesced, even if they did not participate, in objectionable practices until an outraged society compelled amateurs to interfere. The amateurs were frequently in the legislature, and unwise laws were enacted. Legislatures reached out for abuses they could readily observe but the causes of which they did not fully understand."

As the problems of our business multiply, complicated often as we think by unwise legislation or regulations, we sometimes wonder if we have not too often approached these problems from a selfish viewpoint,

without sufficient regard for public welfare—if, in fact, we have not been too ready to accept benefits without making a corresponding contribution in the interest of others.

There may have been a time when banking required little training and when any ordinary, intelligent business man could run a bank more or less successfully. Perhaps this was never entirely so, and it certainly is not true today. Banking is well on the road to becoming a profession, as distinguished from a trade. In other words, banking requires theoretical as well as practical knowledge. It is rapidly developing codes of procedure and ethics, such as are characteristic of law, medicine and the other older professions. Consequently, there is an ever-increasing danger in permitting amateurs, whether in or out of the profession, to settle our problems.

Present Day Requirements of Banking

IF we are to discharge intelligently and well the duties that rest upon us as the custodians of the world's credit supply, we must have the best banking and financial machinery in the world, manned by the most competent and thoroughly trained executives, whose vision can comprehend national and international problems alike; men whose caution and conservatism will not circumscribe that degree of courage and faith which leads to adventure upon uncharted courses, because it seems to me that much of the way we shall have to go, in the years that lie ahead, will be without the markings of precedent, to which we habitually look for our guidance.

Have we such a banking system—the machinery necessary for the job? It seems to me that we have. With the so-called McFadden Bill now a law, liberalizing and equalizing the rights and privileges of national banks, with constantly improved state legislation adding greater protection and security to the state chartered institutions, with the Federal Reserve System under indeterminate franchise, there is apparently little of major legislation necessary to perfect our banking equipment.

It is only natural that here and there experience will develop weaknesses in these respective pieces of human creation, but nothing would be more unfortunate, I think, than that there should be either agitation for or

actual further legislative action with respect to our banking system for some time to come, and, most of all, that anything should be done to change the fundamental structure of the Federal Reserve Act. Let those who think otherwise give careful consideration to the cause of their complaint. After all, are not the criticisms leveled at the System largely those arising from matters of administration rather than from inherent defects in the law itself? If this assumption is correct, may we not ask those in authority to cooperate with us in an effort to strengthen the administrative organization without undermining the foundations of the structure?

The future welfare of this country, and of other countries as well, is certain to be greatly influenced by the financial policy which this country pursues. Is it too much, therefore, to insist that this policy be made and carried out by those who have practical experience as well as theoretical training in matters of finance and banking? Intelligent self-interest ought to impel every citizen of the country, whatever his occupation or employment, to demand that the banking system of the country be supervised only by those familiar, by practice and experience, with the problems of banking, not only in this country, but in the other countries of the world.

Foreign Investments Concern Every Banker

SINCE I have mentioned the necessity of those directing our financial affairs having a knowledge of international financial questions, may I enlarge upon that subject for a moment? In spite of the fact that international finance, as we know it today, goes back in its beginnings to the Middle Ages, economists and bankers are far from agreement on many of the questions which this subject presents. In part, this is due to the magnitude of the operations which have resulted from the war and from the treaties of peace.

The Information Service of the Foreign Policy Association published in June a series of tables and figures illustrating, above all, the changes which have resulted in our own economic situation in this respect. Most bankers are familiar with these figures, and without quoting details of the changes which have followed 1914, the net result has been—according to Dr. Max Winkler, who wrote the pamphlet—that we have not only ceased to be a debtor nation, but at the close of 1926 we held foreign investments in excess of \$12,750,000,000, not including the debts owed to our government. We know that this figure has been materially increased during the current year.

I am very well aware that many bankers dismiss this subject with the thought that they neither originate nor participate in foreign loans, and that, therefore, the problem of foreign investments is one for Wall Street and the big private banking houses and security companies of that district. Let me remind you, however, that the problem is not one for these particular gentlemen alone—it is daily brought to the doorstep of every banker and every investor in the country.

The great underwriting houses do not buy foreign investments exclusively for their

own account. They are merchants in securities, and whether you buy directly or indirectly, the salesmen for these houses are constantly offering these securities to your customers, who are paying for them with the deposits from your bank. Whether you will or not, you are becoming interested in every venture, of whatever character and wherever in the world located, the securities of which are finding lodgment in your community and with your people.

I hope it may be as interesting to you as it has been to me briefly to take stock of what America has done with her money in the matter of foreign investments in the past three years. In that time we have loaned to Germany alone considerably more than \$1,000,000,000. These loans have been made to cities, states, banks, churches, tramways, automobile companies, housing corporations, steel mills, electric companies, dye works, cigarette companies, harvester companies, water power companies, film companies, in fact, almost everything.

There is hardly a country in the League of Nations which has not borrowed money in America in this period, among them: Argentina, Austria, Belgium, Brazil, Bulgaria, Chile, Colombia, Costa Rica, Czecho-Slovakia, Denmark, the Dominican Republic, Ecuador, Finland, Germany, Greece, Honduras, Hungary, Italy, Japan, Jugoslavia, Liberia, Mexico, Norway, Panama, Peru, Poland and Salvador. These and others directly or through their states and municipalities, all got money from the United States in 1926, and these are only the governments themselves which borrowed.

In the same period, American investments abroad include stocks in oil corporations in Cuba, Mexico, Canada, Venezuela, Peru, British Guiana, Persia and Trinidad; Norwegian aluminum, Russian gold mines, French perfume and silk, Finnish cooperatives, automobile factories in a dozen countries and railways everywhere, Italian shipping, Belgian and Spanish telephones, Brazilian coffee and African rubber plantations, Caribbean sugar fields, Central American fruit, Caucasian manganese, Ural platinum, in fact, a little of everything everywhere and a great deal in many cases.

I wonder if these figures conjure up in your mind, as they do in mine, any answer to that master political phrase, "America First," or any interpretation of the political fetish of "American isolation." It is perfectly true that the total sum represented by all these loans and investments is a mere bagatel compared with the aggregate of American wealth, but unless human nature has changed, or effects a rapid transformation, I have an idea that there are hundreds of thousands of American citizens whose instincts of self-preservation, and whose sense of property rights, may somewhat incline them to take heed of what is happening in the rest of the world.

We Can Not Escape Economic Laws

NOT often in the past have the property rights of our private citizens been put in jeopardy by the action of foreign government, but if we may judge by the reaction that has followed the attempt of our neighbor to the south in matters of this kind, we may well imagine that the day may come

when no mere small fraction of our people will be not only interested in what is happening in other lands, but insistent upon our government likewise taking cognizance of such facts.

Let no one think I am condemning the making of foreign investments. Such a thought is farthest from my mind. I believe, in fact I know, that if we are in truth and reality the world's banker, and it seems indisputable that we are the custodians of the world's available credit today, we must make foreign loans and investments both for the preservation of our own economic position and in justice and fairness to the rest of the world.

Such has been the experience of those countries which, for hundreds of years, have been the world's bankers, and I am sure we cannot escape the economic laws which impelled them, and which necessarily impel our citizens, to seek investments for their surplus funds in those markets of the world where returns are most remunerative. The economic effect of this policy has scarcely been considered, and certainly few, if any, have fully appraised it.

When the Dawes Plan was adopted, most economists and bankers expected the Plan to fail at an early date—some because they questioned whether Germany could raise the large sums demanded—others because they regarded the transfer to other countries of the sums involved an impossibility, and yet, as a matter of fact, Germany has borrowed more from us since the adoption of the Plan than she has been compelled to pay to her debtors, and consequently she has had no difficulty in raising the money or in making the necessary transfers.

Germany May Yet Have a Further Test

TO be sure, the day may come when the interest payments required to be made by Germany on her foreign loans, together with the payments required under the Dawes Plan, will bring about a crisis in her financial affairs. If, and when that time comes, the Plan itself provides a method of procedure, and it is reasonable to believe that the healing influence of peace and tranquillity, which in the meantime will ensue, will make possible, in an atmosphere of justice and equity, an easy adjustment upon a basis fair to all.

Until that time arrives, mere speculation as to what should be done is more than futile and quite as likely to hinder as to further the interests of comity and good will, which in recent years have made so much progress in the former enemy countries.

America is interested in German fiscal policy because, after all, to no small degree it is the determining factor in the whole problem of the large intergovernmental debts. As long as Germany can pay the Allies, the Allies ought to have no great difficulty in meeting their international obligations. So long as this is true, discussion of our attitude toward the debts due us by the Allies appears quite academic. When and if, however, there is at some time a further consideration and adjustment of Germany's reparation payments, then conscience and good faith will undoubtedly dictate a further re-

view of the subject of the international debt from our standpoint.

Turning from the field of foreign affairs to matters of more intimate, if not more immediate concern, there is much to attract and hold our attention, though perhaps little to give us cause for alarm. It has always seemed to me that one of the richest blessings of a democracy is the latitude of its individual citizens to criticize "things as they are," their freedom to demand change—a prerogative, the exercise of which contributes largely to the charm of living and, incidentally, does little harm. These outbursts of fervor for some particular cause usually find birth in the otherwise unoccupied intellect of some one individual. Not infrequently, however, converts are rapidly attracted to the alleged cause, thus forming our various sects and groups which are most industriously working for the accomplishment of their cherished ambitions.

The Assault Upon "Things as They Are"

IT is perfectly true that many of the so-called reforms are worse in realization than the disease they attempt to cure. Thus there is laid the foundation for another assault upon "things as they are." These merry-go-rounds of group reformers are, so to speak, the leaven in the loaf, the salt that saves our body politic from deterioration. The history of our government is one long story of these forays of mere freeborn average men, and recently women as well, to get what they want. Sometimes these experiments are brilliant, sometimes merely stupid, many times just ludicrous. Nearly always they reflect so large a measure of selfishness as to rob them of any appeal to the unprejudiced mind.

Given always to voicing our protests and demands after this fashion, it is doubtful if we have ever been more thoroughly organized than now, and it is interesting to observe in what diametrically opposite directions the varying groups seem to work. On the one hand, there is no small group which is demanding more and more from those in political control. We want more public schools, more paved streets, more highways, more free bathing beaches, public parks, anything and everything that will add to the joy of living but which require large expenditures for development. This group is offset by another group, perhaps not so numerous, but no less vociferous, which demands economy in government and ruthless reduction in taxation. They assert, with mounting stacks of figures, that taxes are crushing the life out of business, and sooner or later, sooner perhaps, unless controlled, will destroy our very prosperity.

Between these two warring factions, what is a poor public official or even one who votes for bond issues and pays the taxes to do? Perhaps a middle course would be wise. Some public improvements might be deferred and tax burdens made somewhat lighter, but will this happen? Many people doubt that it will. After all, most of us want all the comforts that money or credit will buy, and this in spite of the fact that we know that ultimately we will have to pay.

Some one has said that there is nothing the matter with taxes except that we have to pay them, and since the pain of paying is felt on the average about once a year, whereas the joy of the comforts for which we pay is with us the year round, I am not optimist enough to hope for any marked change in the present trend of such affairs in the immediate future. Nor am I greatly alarmed about the matter, since our largest taxpayers are likewise our largest bond buyers.

And thus it goes all through our social and political existence. If things as they are do not suit us, we organize our own pet party and start out on a war of reform. As soon as one group finds a serious defect, imagined or real, in any part of our machinery, another group as promptly proposes a remedy or rushes to the defense of the status quo.

It may be cigarettes or the length of hair and dresses. It may be Wall Street or Main Street. It may be agriculture or alcohol, and in passing may we observe that in recent years the former of these two has had rather a rough deal, while the latter has not gotten half it justly deserves.

It may be our banking system, or it may be our business practices. No matter what or where, you are certain to find one group that says everything is all wrong and another group which insists that if people will only do it their way, everything will be all right.

The most astounding fact is that the smallest group of all is the group that voices a faith in "things as they are" and a confidence that the nation will endure without radical changes being made; and yet we seem to be doing fairly well in spite of all the critics of "things as they are," and it seems to me we may reasonably expect a continuance of these conditions for some time to come. We will continue to be governed just about as we have been governed in the past. Honesty and integrity will continue to dominate most human reactions, which means that capital and labor, now happily enjoying the most sane and satisfactory relations in their history, will continue their joint contribution toward a still higher and better standard of living for all our people.

Problems of Those Producing the Food Supply

THE directing influence of honesty and justice also means that the best intelligence of public official and layman must continue to focus upon the problems of those who produce the nation's food supply until an equitable and effective solution is found which will restore this fundamental industry to its rightful place in our economic life. In just what direction the remedy lies does not yet appear, but that it revolves around two cardinal facts seems to me perfectly clear. Justice demands more for those who produce without increased burdens for those who consume. Our next peace-time national hero may well come from the ranks of those who are now devoting their time to a study of our complex and rapidly changing systems of transportation and distribution, especially as applied to our food supply.

This brief digression has taken me away somewhat from my text, "Things as They Are," on which, however, I have undoubtedly said enough to convince you that I believe—barring unthinkable stupidity on the part of all of us—our political and economic future is reasonably secure.

There is another group—in fact, several of them—which is not satisfied with "things as they are," or as they portend for the future moral and spiritual welfare of our civilization. They fear that the God of the material is displacing the God of the soul. I do not subscribe to their theory, though I do believe that as our wealth and leisure increase, so does our duty of devotion to the finer things of life. Paradoxical as it may seem, it is undoubtedly true that the problems of wealth for the nation, as for the individual, are often as difficult as are the privations of adversity. Humbleness of character and faith in the destiny of man—the sustaining factors of high ideals—do not seem to thrive as they should in the land that flows with milk and honey. And yet, in spite of what our dissenting groups may say, I do not despair. I am not even discouraged, because I do not believe that this is the first era in human history when apparently men everywhere were chiefly concerned with accumulating wealth and material comforts. The cottage, the vine, and the fig tree of another age were no more than the mansion, the motor, and the money of today. They are all only symbols of man's ambition to provide for those whom he loves. No sadder day could come for art, science, religion, or civilization itself than that wherein the incentive of man to work, to achieve, and to accumulate should fail.

On Surrendering Things of the Spirit

THOSE who cry out that we are surrendering the things of the spirit to the things of the material overlook the fact that at no time in the history of the world have men of wealth given as liberally as now to churches, universities, libraries, museums, and all those institutions wherein high ideals are instilled, sterling character is built, and the hope of civilization preserved.

Critics are a splendid influence in the world. Their pointed shafts serve to keep us to the paths of rectitude while they prod us on to the accomplishment of greater good, but we must never allow them to shake our faith in ourselves, our fellowmen, or our national destiny. Perhaps what we need most today, individually and as a people, is a genuine revival of tolerance, a fresh baptism of faith—tolerance for the views and acts of others—a belief in something beyond ourselves, and faith in the destiny of life. If we can have these, it will not matter what our lives are, for we can live them finely.

This, then, is my hope for our future—that we may be rich without forgetting to be righteous; that we may have leisure without license; that we may be powerful without being offensively proud; that we may be nationally minded without being narrow minded; and, finally, that we may live in a world of fact without surrendering our faith.

The Causes of Bank Failures and Some Suggested Remedies

The Economic Policy Commission, After Investigating the Problem Presented By Numerous Bank Failures, Reports That More Good Can Be Done By Correcting Defects In Banking Structure Than Through Further Restrictions on Loans and Investments.

IN the limited time at its disposal, the Commission has not been able to make a comprehensive investigation of the particular banking transactions that have involved serious losses and numerous failures. A preliminary examination of this aspect of the matter, however, disclosed great diversity among these unfortunate operations—a diversity so wide that it has forced upon the Commission the conviction that it is hopeless to seek for a solution of the bank failure problem in main reliance upon the imposition of further restrictions on bank loans and investments.

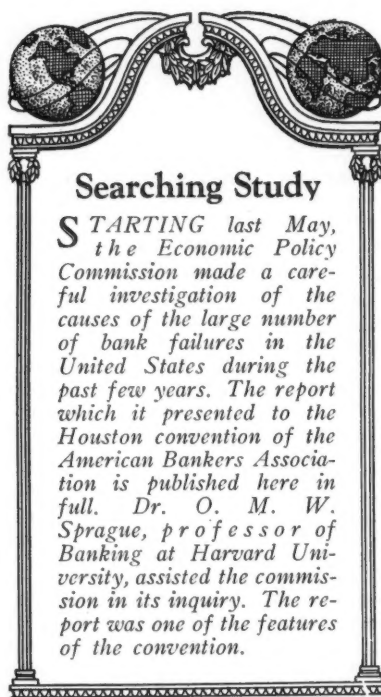
Far more promising results may surely be anticipated from efforts directed toward the correction of defects in banking structure and management, of which unsound banking practices are but merely symptoms. The recommendations of the Commission are, therefore, designed to bring about the establishment of conditions which will be more favorable than in the past to the conduct of banking along safe lines.

Too Many Bank Failures

IN the supremely important matter of safety the recent record of the American system of independent unit banking has been conspicuously unsatisfactory. During the last six years more than 3800 banks, somewhat more than one-eighth of the total number of banks in the country, have been obliged to suspend operations, and although a considerable number, after a variety of adjustments and sacrifices, have been reopened, the aggregate of definite failures has been in excess of 3000.

Many additional banks also have escaped failure only through the absorption of losses on doubtful and worthless assets by directors, assessments on shareholders to restore impaired capital, or by subscriptions to additional capital from wider circles influenced by the desire to avert the damaging consequences of a general loss of confidence in local banking institutions. Still other tottering banks have been taken over by stronger neighbors, in some instances with disastrous effect upon the solvency of the absorbing institution.

These failures and near failures do not imply a weak condition and poor management in the case of the majority of banks throughout the country, but they do indicate, as does experience in earlier periods, that large numbers of banks, which seem to be in a flourishing condition during years of business activity, are unable to withstand the stress and strain incident to depression and



a downward adjustment of values in the communities in which they are established.

Aside from scattered failures due to dishonesty or gross mismanagement, the banking troubles of the last six years have been concentrated in localities which have experienced a prolonged period of adverse conditions or the sudden collapse of a highly speculative local situation. In the northeastern states, in the territory served by the Federal Reserve banks of Boston, New York, and Philadelphia, a section which speedily recovered from the industrial reverse of 1920, bank failures were relatively few, only forty during the six years, 1921-1926. The Cleveland district with thirty-six failures, and San Francisco with 158 also show at least a comparatively low casualty rate. In the four southern districts of Richmond, Atlanta, St. Louis, and Dallas, on the other hand, there were 1117 failures during this six-year period, while the three remaining districts present a still more unfavorable record, the Chicago district with 437 failures, Kansas City with 590, and finally the astounding number of 999 failures in the Minneapolis district.

A variety of adverse local influences, among which may be mentioned a succession of crop failures and the collapse of urban real estate booms, precipitated numbers of these failures, but the great majority suspended because they were unable to meet the stress exerted by the persistence of unprofitable prices for the products of agriculture and animal husbandry—stress which was particularly severe because it was experienced after years of abounding prosperity, an extreme appreciation in the value of farm property, and a large increase in the number of farms mortgaged and amount of mortgage indebtedness.

The Influence of Adverse Economic Conditions

THESE adverse conditions, it can hardly be too strongly emphasized, do not furnish an adequate explanation of the numerous bank failures of the last six years. By no means all, or even a majority, of the banks in the localities most seriously affected have been obliged to suspend operations. Unfavorable economic conditions are an acid test of the policies which banks have followed during preceding years of business prosperity. Financially weak and unskillfully managed banks are weeded out; strong and well managed banks experience losses but they survive. Great significance in this connection attaches to the finding of a Special Committee on the Banking Situation of the 1927 Legislature of Minnesota, a state in which adverse conditions have been particularly severe and the number of bank failures numerous. Analyzing the causes of bank failures, the Committee says:

"A survey of the closed bank situation in Minnesota presents an interesting picture. Certain communities of the state seem to have escaped entirely, or almost entirely, this epidemic of closed banks, while in other parts of the state the proportion of closed banks to the number of banks chartered in the community is very great, nor is this unequal distribution of closed banks due in large measure to different conditions of soil or conditions of the farmers, for in parts of the state where the farming conditions are almost identical one part shows a large percentage of failed banks and another part shows almost none. The cause lies deeper than that."

Unqualified agreement with the view of the matter of this Minnesota Committee is not inconsistent with definite recognition that external conditions in many parts of the country during the last ten years have been abnormally unfavorable to the conduct of banking along safe lines. In the agricultural development of the country, however, the stage is apparently more generally being reached in which farm values will be more

closely related to current income, and it is not probable that commodity prices will again exhibit the extreme fluctuations of the last decade. It is therefore reasonable to presume that no future period of similar duration will witness the number of bank failures that have marked the last six years. If these anticipations are realized, the bank failure problem assumes less unmanageable proportions, but in the absence of improvements in organization and practice, it is not to be doubted that a discreditable number of failures will continue to occur, mainly concentrated in periods of trade reaction.

It is also important to note that the inability of many banks to withstand adverse conditions is not a problem that concerns exclusively those areas in which bank failures have been numerous in recent years. Present immunity furnishes no certain assurance that all banks in a locality are and will remain in competent hands. The possibility, if not the probability, must be recognized that adjustments even distantly approaching in difficulty those experienced in agriculture might be accompanied by numbers of banking casualties in communities in which manufacturing is the major occupation.

Urgent Need for Greater Safety in Banking

AS in earlier periods marked by numerous bank failures, an insistent demand for greater safety in banking is to be anticipated, and this demand is not rendered less reasonable by the presence of strong and well managed banks in every part of the country. The public must make use of banks, but few are in position to distinguish between the strong and the weak. Bank statements and other external information relating to banks do not furnish an adequate basis for intelligent discrimination. Unless failures become exceptional, it may be expected that all banks will be subjected to an increasing range of restrictions, restrictions that may be quite superfluous for well managed banks, but which are adopted to curb the weak and incompetent minority.

Numerous failures should be a matter of grave concern to well-managed banks for still other reasons. To those bankers who are strongly opposed to branch banking it should be evident that the recurrence of numerous failures threatens to undermine the system of unit banking. Recognition should also be given to the damaging effect upon the earnings of the better banks during the more or less prolonged period of operation of weak banks before the failure stage is reached. And finally, attention may be called to the unfavorable influence on earnings in consequence of the damage to a community which is entailed by the unsound conditions and unsuccessful undertakings that are fostered by banks under incompetent management.

While the experience of the last six years furnishes ample evidence of serious defects in our present system of unit banking as it is now organized and operated, and compels recognition of the urgent need for its modification and improvement, the Economic Policy Commission is hopeful that no revolutionary change, such for example as the general diffusion of branch banking, will be required to provide adequate protection for

the depositor, and is also hopeful that this result can be attained with no sacrifice but rather with a positive enhancement of the characteristic advantages of unit banking. The causes of numerous failures are not obscure and difficult to discover, and the Commission believes that the number of failures in future can be substantially reduced through the adoption of arrangements definitely designed to meet obvious defects that experience has disclosed in our system of independent local unit banks.

In the judgment of the Commission, however, this objective cannot possibly be reached through the imposition of further legislative restrictions covering the details of banking operations. Safety in banking will never be secured if reliance continues to be placed primarily and almost exclusively upon restrictions, which even when carried to an extreme point can do no more than somewhat narrow the field within which an incompetent management will manifest its incompetence. A more immediate enforcement of existing legislation would do much, but remedies for bank failures to be adequately effective must be designed to reduce the number of financially weak banks, secure more competent officers supported by responsible and active directors, and above all insure that unsound policies shall be checked long before solvency is endangered.

Excessive Numbers of Banks

ASYSTEM of unit banks is peculiarly subject to the grave danger that a much larger number of banks will be established than is compatible with the requirements essential for safety of financial strength and good management. Under a highly developed branch banking system the large capital and, even more important, the extensive organization needed from the outset, effectively restrict the formation of new banks. Branches may indeed be overdeveloped, but experience indicates that the consequent inroad on earnings is not serious enough to impair capital, much less jeopardize the position of depositors.

Strikingly different is the situation under a system of unit banking. In order that all communities may enjoy the benefits of banking facilities under competitive conditions, the minimum capital required for the establishment of a bank is necessarily set at a low figure, and operations can be handled by a simple organization that can be readily improvised. Profits during years of business prosperity are reasonably satisfactory, and the temptation to enter the banking business is made more alluring by the exaggeration of these profits under the faulty accounting practice that is followed by most banks. Reserves are not created to take care of future losses, but all undistributed earnings are allocated to surplus and undivided profits, from which deductions are subsequently made, often most unwillingly, when losses have been unquestionably realized. In addition to anticipations of profits, a certain measure of power and dignity, especially outside the large cities, that seems to attach to the management of banks, does much to enlist an active interest in proposals for additions to their number, and the possibility of securing liberal accommodation through relationship with a bank, as officer, director,

or shareholder, is a consideration that is by no means uncommon.

Public opinion also has in general looked with positive favor upon an unlimited increase in the number of banks. That men of good character and average business experience should be as free to engage in banking as in other occupations seems to have been taken for granted. Insufficient account is taken of the special characteristic of banking that it exposes to risk of loss not only shareholders and business creditors but also the wide circle of depositors who are not in position to protect themselves by the exercise of reasonable care and foresight. Moreover, the misconception is widespread that additional banks in a community will increase the available supply of credit, a motive particularly strong in communities where the local supply of credit regularly falls short of the local demand for accommodation.

It is not clearly perceived that the volume of credit in any community is determined by the wealth and banking habits of its people, and that an increase in the number of banks subdivides but does not appreciably augment the aggregate amount of banking resources. A community with aggregate banking resources of, say, \$4,000,000 will be better served in every way including safety, by two or three banks rather than by six or more. An excessive number of banks induces cut-throat competition, and tends to undermine conservative standards in the granting of credit, which in turn subjects the better borrowers to the necessity of paying higher rates for loans since they are obliged to compete with a demand for credit that properly should not receive favorable consideration.

Country Is Over-banked

DURING the decade and a half preceding the trade reaction of 1920, these various influences brought about the organization of a large number of new banks in most parts of the country, and in the judgment of your Commission the resulting overdevelopment of banking is more responsible than any other factor for the banking disasters of the subsequent years. Between 1904 and 1920 the number of state banks and trust companies increased from 7508 to 22,054 and the number of national banks from 5331 to 8123. Aggregate resources had indeed increased enormously so that average resources at the close of the period were greater than at its beginning. But an average of resources is most misleading, since the gain in resources was by no means evenly distributed among the banks. Many banks had become larger and stronger, and the thousands of newly chartered banks served mainly to provide the country with an unprecedented number of small banks employing resources of from \$100,000 or even less to \$500,000.

The strength of any particular bank cannot of course be determined by its size. There are hundreds of small banks throughout the country that are ably managed and abundantly strong. These banks are commonly subject to the handicap of an absence of industrial diversity in the communities which they serve—a handicap which they can only overcome by the exercise of exceptional caution and judgment. On the

other hand, while there is no exact relationship between the number and size of the entire group of banks in a locality and the strength of its banking position, it is certain that no community can hope to enjoy the benefits of safety in banking if the business is organized in units so numerous as to exceed the available supply of competent officers and responsible directors, and with insufficient earning power to be able to absorb inevitable losses. Ample evidence of the unhappy consequences of excessive numbers and inadequate size in banking is clearly to be found in the geographical distribution of the failures of the last six years.

In the three Federal Reserve districts, of Boston, New York, and Philadelphia, there were but forty failures during these years. It is an area of 150,000 square miles with a population of 33,000,000, and was served at the close of 1926 by less than 3300 banks (3265). The Chicago district, with a slightly larger area of 190,000 square miles but with a population of only 17,000,000 is provided with 2000 more banks (5268), and had a record of 437 failures between 1921 and 1926. Again the Minneapolis district, it is true with a much greater area, 414,010 square miles, but with a population of only 5,500,000 still had 2780 banks in operation after 999 failures.

Comparison by states tells the same story only the more forcibly. The 11,000,000 people of the state of New York with an area of 47,000 square miles managed very comfortably with 1056 banks in 1920, and

there were eight failures in the six subsequent years, while the slightly less than 2,500,000 occupying an area of 55,000 square miles in Iowa was served by 1763 banks, of which 263 failed. North Dakota supplies an even more extreme example of the overdevelopment of banks and its inevitable sequel; 317 failures among 898 banks having been established to meet the needs of a population of about 650,000 on an area of 70,000 square miles.

No community can possibly provide adequate resources, competent officers and experienced directors for one bank to every 750 of its inhabitants as in North Dakota, or to 1400 as in Iowa. Banking troubles were inevitable with the advent of adverse conditions, and for the severity of these conditions the unwise use of credit administered by an inordinate multiplicity of banks is in no small degree responsible. And as may be seen from the table on this page, the situation in these states was not exceptional.

Limitation of Bank Charters to Community Needs

A LONG and essential first step toward the attainment of safety in banking will have been taken when the number of banks chartered is limited to the needs of the community, based upon clear recognition that development of every community is best served by strong banks that employ conservative standards in the extension of credit.

State and National Bank Failures 1921-1926

	Total State Banks Failed	Total National Banks Failed	Grand Total	Number Banks in Operation, 1920		
				State	National	Total
Alabama	14	3	17	251	101	352
Arizona	27	3	30	67	20	87
Arkansas	42	3	45	404	83	487
California	9	9	18	420	303	723
Colorado	51	15	66	262	141	403
Connecticut	2	1	3	154	66	220
Delaware	..	..	..	28	19	47
District of Columbia	..	..	..	30	15	45
Florida	28	1	29	212	53	265
Georgia	155	9	164	645	93	738
Idaho	41	19	60	141	81	222
Illinois	45	3	48	1,130	480	1,610
Indiana	31	3	34	803	254	1,057
Iowa	236	27	263	1,405	358	1,763
Kansas	104	8	112	1,100	249	1,349
Kentucky	26	..	26	450	134	584
Louisiana	25	1	26	229	38	267
Maine	2	..	2	98	63	161
Maryland	4	1	5	190	92	282
Massachusetts	16	1	17	306	159	465
Michigan	31	..	31	588	112	700
Minnesota	186	29	215	1,184	331	1,515
Mississippi	22	1	23	324	30	354
Missouri	145	2	147	1,532	136	1,668
Montana	130	59	189	286	145	431
Nebraska	112	17	129	1,008	188	1,196
Nevada	1	..	1	23	10	33
New Hampshire	1	..	1	70	55	125
New Jersey	..	..	..	176	212	388
New Mexico	39	21	60	76	47	123
New York	7	1	8	565	491	1,056
North Carolina	68	9	77	536	87	623
North Dakota	279	38	317	717	181	898
Ohio	8	3	11	775	370	1,145
Oklahoma	140	42	182	611	356	967
Oregon	18	5	23	187	90	277
Pennsylvania	21	5	26	695	851	1,546
Rhode Island	1	..	1	31	17	48
South Carolina	97	8	105	379	82	461
South Dakota	212	38	250	558	136	694
Tennessee	23	2	25	448	98	546
Texas	137	23	160	1,026	556	1,582
Utah	10	3	13	105	28	133
Vermont	1	..	1	59	49	108
Virginia	19	1	20	323	165	488
Washington	32	6	38	307	87	394
West Virginia	10	1	11	218	122	340
Wisconsin	30	5	35	809	151	960
Wyoming	49	11	60	113	47	160
Totals	2,687	437	3,124	22,054	8,032	30,086

An increase in minimum capital requirements would do much to hold the number of banks within safe limits. When account is taken of improved means of transportation and the general advance in prices of the last decade, a minimum capital of \$25,000 surely, and presumably of \$50,000, would not deprive any community of adequate banking facilities. But capital requirements alone are too mechanical and rigid to be made the sole factor in the determination of the desirable number of banking institutions in a locality. Needed elasticity in the granting of charters requires that approval shall be made contingent upon evidence of a community need for additional banking facilities.

A provision of this character has already been adopted by a number of states, and the most comprehensive of these requirements, that of Wisconsin enacted in 1923, is here presented, preceded for purposes of comparison by the conspicuously inadequate provisions of the Iowa Law.

IOWA: "Incorporation—articles—contents. State banks may be hereafter organized by not less than five persons of lawful age, who shall, prior to the commencement of business, sign and acknowledge articles of incorporation before some officer authorized to take acknowledgements of deeds.

"Commencement of business—certificate of authority. No such association shall have the right to commence business until its officers or its stockholders shall have furnished to the superintendent of banking a sworn statement of the paid-up capital, and, when the said superintendent is satisfied as to that fact, he shall issue to such association a certificate authorizing it to commence business."

WISCONSIN: "Any number of adult persons, citizens of Wisconsin, not less than seven nor more than twenty, desiring to associate for the purpose of organizing a banking corporation under this chapter, shall make application to the commissioner of banking in such manner as may be prescribed on a form furnished by him. . . . "Upon receipt of proof of publication, the commissioner of banking shall thereupon ascertain from the best sources of information at his command, and by such investigation as he may deem necessary, whether the character, responsibility, and general fitness of the persons named in such application are such as to command confidence and to warrant the belief that the business of the proposed corporation will be honestly and efficiently conducted in accordance with the intent and purpose of this chapter; and whether public convenience and advantage will be promoted by allowing such bank to organize; and he also shall investigate the character and experience of the proposed officers, the adequacy of existing banking facilities, and the need of further banking capital; the outlook for the growth and development of the city, town, or village in which such bank is to be located, and the surrounding territory from which patronage would be drawn; the methods and banking practices of the existing bank or banks; the interest rate which they charge to borrowers; the character of the service which they render the community, and the prospects for the success of the proposed bank if efficiently managed. Such investigation shall be completed within 90 days from the filing in the office of the commissioner of banking of proof of publication and the making of the deposit herein required, but in the event a majority of the applicants and the commissioner of banking mutually agree to it, the time may be extended an additional period of 60 days."

This Wisconsin statute serves to indicate the variety of considerations that may properly be given weight in the determination of community advantage from the establishment of additional banks. Precise tests are lacking. Judgments must be exercised, and it is therefore to be presumed that little will be accomplished through legislation of this character unless those entrusted with its execution are supported by a public opinion that clearly and permanently recognizes the damaging consequences of an excessive number of banks.

The problem is further complicated by the presence of two charter-granting authorities, the national and the state, which may be played off one against the other in doubt-

ful cases by eager bank organizers. Both Federal and state officials charged with the administration of the banking laws not unnaturally become imbued with the desire that the system of banks under their jurisdiction shall exhibit both absolute and relative growth. Many banks have unquestionably been chartered in the belief that a refusal would be followed by a more favorable response in the other quarter. It is clearly most advisable that in this matter national and state authorities should work in a spirit of close and friendly cooperation, neither, except in the most unusual instances, granting a charter that has been refused by the other authority.

Responsibilities of Bank Directors

THE organization of unnecessary banks, would be a far less easy matter, and the management of banks would be subjected to more steady and effective supervision, if the responsibilities involved in the acceptance of the position of director were more generally realized. The risks that are incurred are clearly set forth in the following statement which has been prepared for the Commission by an experienced bank officer of legal antecedents:

"A director of either a national or a state bank, by accepting election as such, assumes definite legal liabilities and what is often more important, moral obligations, which he cannot evade if he is to maintain his self respect and position in the community in which the bank is located.

"The legal liabilities assumed by a bank director by his act of accepting election as such, are of two kinds: express statutory liabilities imposed by the national bank act or by the laws of the state under which the bank is chartered; and the general legal liability imposed by the common law upon every director in any corporation for losses to the stockholders or the creditors of the corporation, caused by his misconduct or negligence.

"The first class of legal liabilities generally relate to excessive loans, wrongful certification of checks, investments of a kind forbidden by law, guarantees by the bank of the credit of some third person. Their exact nature depends upon the terms of the law under which the bank is organized.

"The second sort of legal liability which no bank director can escape, is the general liability assumed by every director and every officer of all corporations to use ordinary care and diligence in following the affairs of the corporation and seeing that improper conditions are corrected. It is more difficult to pin negligence of this sort on a bank director in such a way as to make him responsible financially to the depositors, than it is to convict him of approving a loan or an investment which the bank is specifically forbidden to make. But there are cases in which directors have been held accountable for negligence in following the affairs of their bank and many cases in which they have been held responsible financially for their assent to direct violations of the act under which the bank is organized. And for every case that reaches the courts, there are a dozen in which settlements involving the payment of money by directors have been made out of court, to avoid suit.

"Directors of banks are frequently, perhaps generally, asked from time to time, to give guarantees or bonds in connection with the bank's business. There is no legal obligation, of course, for a director to give such guarantees or bonds. Such guarantees by directors are generally given to secure the deposit of public moneys in the bank. They are frequently given on the borrowings of the bank from its city correspondent. The directors may be asked to go on the official bond of a public official, who in return, promises to keep public money in the bank. In any of such events, a failure of the bank is practically certain to convert the guarantee or bond into a real liability. And the existence of such contingent liabilities on the part of directors, which become very real and direct liabilities in the event of failure, is perhaps the main reason why in case after case, directors have paid or underwritten voluntary assessments and contributions far in excess of any double liability on their stock, to keep banks open.

"The moral obligation assumed by a director of a bank differs, of course, from community to community, and with the moral standards of the director himself. A bank directorship in most communities is regarded as an honor. If the bank fails, that honor is generally converted into a disgrace. The community expects a bank director, even at personal financial sacrifice, to keep his bank from failing. This is quite apart from any legal liability of the director. And in the case of thousands of small banks that have suffered severe losses, the directors have, at great personal sacrifice, put in new money in an effort to protect depositors and without any hope of recovery. The average farmer or small town director of country banks is entitled to a degree of credit for meeting the moral obligations of his position, that the general public does not give him, particularly, if his sacrifices and those of his fellow directors do not eventually save the bank from failure."

In banking, as in other branches of business, the character and policies of the organization will commonly be largely determined by some one individual, but in banking and especially in the case of the smaller banks, the supervision of an active board of directors is peculiarly necessary. In many instances, the bank is by no means the most important business interest of its chief officers. There is consequent danger that an undue proportion of the funds of the bank may be employed in undertakings in which officers and perhaps some of the directors are deeply engaged. As an effective means of enabling all directors to become more fully conversant with the condition of their respective banks, this Commission strongly recommends that the American Bankers Association undertake to work out model forms for the presentation of business at meetings of the boards of directors of the banks.

Government Supervision

RESTRAINT in granting charters together with somewhat higher minimum capital requirements, and more regular and careful supervision by directors will do much to strengthen our unit banking system, but by no means all that is needed to afford adequate protection for the depositor. Among

the thousands of banks, large and small, throughout the country, wide differences in the skill and competence of management are inevitable. Dishonesty and the employment of an unduly large proportion of the funds of banks in the other undertakings of officers and directors subject the solvency of banks of small or of modest size to risks from which large banks are practically immune. And it is also perhaps pertinent to observe that the qualities required to handle successfully a small bank, where there is little local diversity in loans and an intense demand for credit, are not more common than the qualities that are needed in the management of much larger city institutions.

To meet these managerial elements of weakness in a system of unit banking reliance hitherto, outside a few cities, has been placed almost exclusively upon legislation covering the details of banking operations and upon government supervision through periodic examinations. It will not be questioned that both legislation and supervision have been necessary and serviceable. It is evident, however, that they have fallen far short of the accomplishment of their primary purpose—the prevention of numerous bank failures. While this Commission is convinced that something more than government action is needed, and that little or no advantage can be anticipated from additional restrictive legislation, it is at the same time confident that unsound tendencies in many banks would be checked under improved methods of supervision and a somewhat more immediate enforcement of those provisions of existing statutes which deal with operations that undermine the solvency of the banks.

In reaching its conclusion that additional legislation at the present time is inadvisable, at least in the case of the national law and of those of most of the states, the Commission has been influenced by three considerations. It has noted that when allowance is made for differences in location and size, the number of national banks that have failed, banks subject to the most restrictive of our banking laws, has been relatively not appreciably less than the number of defunct state institutions. Again, a widening of the range of restrictions will ordinarily increase the number of instances in which determination of a failure to comply with the law involves the exercise of judgment. Numerous situations of this nature breed dissatisfaction with the statute and work against the effective enforcement of the law by administrative authorities.

What Cannot Be Done By Legislation

AND finally, it should be evident that in any event legislation can never include within its scope all of the operations that may prove disastrous to a bank. It can only deal with large classes of loans that are usually undesirable. It cannot take account of difference in time or place, or go very far in prescribing well-balanced proportion between various classes of loans and investments. Loans that may be unwise at one time may be entirely satisfactory at another; or for one bank and not for another. Much must be left to the discretion of management, and the unwise use of this discretion

cannot be adequately checked by government supervision which is mainly concerned with the enforcement of statutory requirements. In many jurisdictions, moreover, the salaries of examiners as well as those of Bank Commissioners have been far too meagre to secure and retain men with proper qualifications for the responsible and difficult work of bank supervision. The better men speedily find more remunerative employment elsewhere.

Clearing House Examinations

RECOGNIZING the limitations of government examinations and supervision, the banks of thirty-three cities, already organized in clearing houses, have set up their own system of examination, and in general with highly satisfactory results. This experience serves to indicate the large possibilities of improvement in banking practice that can be brought about through associated action on the part of the banks themselves. For such associated action, however, it is not necessary to adopt exactly similar arrangements everywhere. The one essential is definite recognition by bankers that active participation in banking supervision is necessary in order to furnish adequate protection to depositors.

In the larger cities, where the clearing house is an indispensable adjunct of banking, a more complete system of examination and supervision can be established than is perhaps feasible elsewhere. Through the clearing house, arrangements favored by a majority of the members can be adopted. In the case of country banks, the initial difficulty is encountered that an organization for the specific purpose of supervision must be created, and the burden of additional expense presents an evident further difficulty. It is also important to note that the clearing-house system of supervision does not include within its scope all of the banks of the cities in which it has been established. Some banks are unwilling to submit themselves to examination on account of the burden of expense or for other reasons. In reserve bank cities little or no pressure can be exerted to secure the adherence of these banks since clearing facilities are unfortunately available through the reserve banks. The admission of others is withheld on account of their unsatisfactory condition.

Powers Under Clearing House Examination Plan

THE clearing house examination system is not only initially selective; it also includes the power of expulsion from the group if criticisms of the examiner are persistently unheeded. By the assumption of these powers of selection and exclusion, the banks accepting the arrangement practically place themselves in the position of guarantors against loss to the depositors in any bank that is a member of the group. If insolvency is allowed to involve loss to depositors, public confidence in the system is weakened, and its permanence is seriously threatened.

With all its unquestioned merits, then, the clearing house system of examination has limitations which must always interfere with its adoption by all of the banks of the country. There are cities in which it might now be established with every promise of decided

advantage to the community, and the system may well be considered a goal ultimately to be reached everywhere. The adoption of the system in any locality would, however, be most inexpedient at a time when there were a considerable number of banks in a weak condition, since exclusion of these banks might precipitate failures while their inclusion would endanger the successful working of the plan itself.

Regional Organizations

IN view of these obstacles to the general adoption of an additional system of examination of the clearing house pattern, this Commission has examined alternative suggestions and finds large promise in a less ambitious plan, which would subject the banks to no appreciable expense, is flexible, and involves no implication of a guaranty against loss to depositors. The basic feature of this proposal is the organization of all banks, both state and national, in regional groups of from fifty to one hundred banks for the purpose of improving and making more effective use of the present system of state and national examinations. While there are doubtless large possibilities of improvement in these examinations, we believe that, aside from a few instances of exceptionally skillful dishonesty, and the special situation presented by chains of banks, successive examinations preceding failure have regularly disclosed an increasingly unsatisfactory condition. More immediate and effective use of the information secured through examinations is certainly not less important than improvements in the examinations themselves.

To improve and make more effective use of the examinations, it is essential that examiners should be assigned for a period of at least two to three years to the banks of a definite area, by the banking departments of the states, and that reports of examinations should be considered with the directors of the banks before they are forwarded to the office of the Bank Commissioner. These are two essential features of the clearing-house examination system, and to them much of its benefit may properly be attributed. A permanent examiner of the state banks, working with the cooperation of the national examiners, with intimate knowledge of local conditions and personalities, would be in position to exert a potent influence, corrective of unsound banking policies.

Under this territorial organization of government examinations, much might be accomplished even without a corresponding regional organization of the banks. But the benefit is small in comparison with that which may be anticipated if the examiner is supported by the banks organized for this definite purpose. The moral support thus afforded would be a factor of large significance, and perhaps initially to attempt more would be inadvisable. The Commission believes, however, again following clearing-house experience, that a carefully chosen committee of the regional organization should be authorized to receive representations from the examiner regarding unsatisfactory conditions in a bank that have not been corrected at his suggestion by its officers and directors.

It is important to note the proposed organization would not assume the respon-

sibility of excluding or of expelling any bank from the association. The exercise of such power implies some measure of responsibility for the solvency of the banks, a responsibility which cannot be too explicitly disavowed. The public should understand that the organization includes all banks, the weak as well as the strong, and that its sole purpose is to bring about a gradual but permanent improvement in banking standards, and by this means reduce the hazards to which the depositor is now exposed.

The difficulties that may be anticipated in securing general assent among the bankers of a locality to enter a regional organization are by no means inconsiderable, and the Commission is, therefore, gratified to be able to report that in one instance these difficulties have already been surmounted. During the last few months the banks of eastern Nebraska have worked out the details and completed the organization of the Fremont District Credit Clearing House Association, and it is significant to note that, with a single exception, all of the seventy state banks of the area have become members, membership of national banks being temporarily deferred. An examiner has been assigned to the territory, who with the hearty approval of the State Bank Commissioner, is to cooperate with the Association to reduce losses and in general to improve banking standards and practice. The operation of this pioneer organization will be watched with keen interest, since it may well prove to be the beginning of an improvement of vast consequence in the conduct of banking throughout the country.

Summary of Conclusions

THE conclusions of the Commission may be summarized as follows:

1. A few banks fail on account of dishonesty or gross mismanagement.
2. Adverse conditions precipitate numerous failures of banks that are financially weak and unskillfully managed.
3. An excessive number of banks is the most potent single cause of numerous failures. This situation can be corrected in part by increased capital requirements, and more completely by the limitation of new charters to the needs of the community for additional banks.
4. In view of the heavy responsibilities, both legal and moral, of bank directors, closer supervision by them is desirable in their own interest, and would serve to correct much that leads to insolvency. It is recommended that the Association prepare standard forms for the analysis of the condition of banks and for the presentation of business to be brought to the attention of bank directors.
5. While additional restrictive legislation covering loans and investments is not favored, the more immediate enforcement of existing statutes is approved.
6. The clearing house examination system has been in general highly advantageous, and its further growth is to be anticipated.
7. As a plan, more feasible for immediate and general adoption, the organization of local regional associations of banks for the purpose of supporting and securing the more effective use of the existing system of government examinations is strongly recommended.

The Fruits of Combined Capital

By JAMES FRANCIS BURKE

In America's Genius for Combination Lies the Secret of Its Greatest Conquests. The Development of Our Great Industries Has Been Accomplished Through Aggregating the Funds of Many. The Change Has Brought an Industrial Revolution.

THE American people are rapidly realizing the responsibilities of living in a billion dollar age, in a billion dollar country.

To do justice to the subject, "The Fruits of Combined Capital," in the presence of this distinguished audience composed of those who are primarily responsible for the accumulation of money and its intelligent investment is a task of imposing importance.

From the days of the first depositories—the shrine of Diana at Ephesus and Apollo at Delphi—the banker has been the one outstanding receiver, guardian and investor of the world's capital.

I shall confine myself to present-day developments, first, because our own lives are intimately interwoven with the story, and, second, because no period in history compares with it in daring and brilliancy of accomplishment.

Gibbon declared that the few hundred years of the height of Roman Imperial power were the happiest of human days, and that the happiest men of all that period were the Roman bankers.

Age Beyond Compare

WHETHER that statement, when written, was true or not, I know of no epoch in the story of man's journey on earth that will compare with the one in which we are now living.

It is the most ambitious, the most inventive, the most progressive, the most practical and the most constructive age in the ebb and flow of centuries.

It is solving more mysteries, revealing more secrets, lifting more loads from man's back, giving more sustenance to man's body, spreading more light across his pathway, bringing more beauty within range of his vision, more music within range of his ear, more friends within range of his voice, and adding more years to his span of life than any other age in history. It is building more abodes of learning, more temples of art, more shrines of religion, and more happy homes where kinsmen gather at the end of day than ever marked any period of time since the first sunbeam lighted up the morning of creation.

Combined capital has been an outstanding factor in this development. In fact, that one magic word "combination" has been responsible for a multitude of the mightiest of latter-day achievements.

And nowhere so strikingly as here in America.

In discussing the results of combination it may not be amiss at the beginning to contrast the history of the old world and the new, to point a moral.

The story of Europe has been a story of separation; a story of strife. It is a chronicle of centuries of conflicts, a record of monotonous, never-ending discords. It has been marked by intermittent bloodshed and bankruptcy, where peace and prosperity might have prevailed instead.

On the other hand, the crowning achievement of America's career lies in its glorious spirit of "get together." What might have been forty-eight conflicting provinces, each seeking the accomplishment of a separate selfish purpose, is today a single united republic.

In its genius for combination lies the secret of its greatest conquests. Unity of purpose, unity of effort, and unity of forces have worked its political, social, scientific, industrial and commercial wonders.

When thirteen colonies became one they expressed their faith in combination. In its first struggle for existence, that combination evolved new elements of strength essential to its endurance, and finally emerged from the fires of the Revolution a virile nation.

At the end of three-quarters of a century, when a great fundamental question arose affecting the inherent character of its structure and threatening its separation, it marshaled every force at its command, and the Union of States emerged from the conflict to illustrate anew the power of American combination.

In 1898, on land and sea, she spoke again with singleness of purpose, while in 1917, when her sovereignty was challenged, she marshaled over-night the most formidable combination of men, money, machinery and moral forces that the world had ever witnessed.

The result was a triumph for the higher humanities and the survival of the nobler purposes for which God had created His children and for the promotion of which He gave birth to this nation.

And now let us consider some of the results of the combination of her financial forces, commonly known as "Big Business."

Since most of the discussion heretofore devoted to big business has come from critics in private life who abhor all forms of combined wealth, and those opponents in public life who see only evil consequences in all combinations of capital, it is a distinct privilege to discuss this subject in a new light in this distinguished presence.

Debt to Individual Genius

IN attributing to combined capital its fair share of credit, I have no desire to overlook the physical and intellectual achievements of those whose genius and industry

have created inventions and wrought accomplishments amid scenes of poverty, nor to belittle the initiative, the never-ending perseverance and success of individuals who dreamed and toiled and conquered alone.

Nor, on the other hand, shall I defend those excesses and abuses which marked the administration of many large combinations of capital during the closing years of the last century.

While those abuses might be forgotten in the ordinary processes of time, their memory is kept green by the survival of those drastic penal statutes impulsively enacted at that time, to bring them under control.

Statutes so rigid in their terms and so unjust in their class discrimination that they will continue to cripple American commerce as long as they remain an unaltered chapter of our system of jurisprudence.

And yet it is to the distinct credit of American genius and enterprise that even in the garb of a legal straight-jacket, capital has associated itself together in many large units during the last thirty years, with the result that untold benefits have followed their creation.

What single individuals never could have done; what small combinations of capital would have been impotent to accomplish, these larger agencies have brought about with such an ease and on such a scale as to arouse the wonder of the world.

In many instances single control over every factor from the raw material in the hills to the finished product at the door of the ultimate consumer, has resulted in economies and improvements unsurpassed in any other country.

Insurance Combines Capital

AFTER the banker's initial accomplishment in accumulating capital and applying it to the promotion of large enterprises, one of the most formidable agencies in the encouragement of thrift and bringing vast sums of money together, has been the insurance companies of America, whose assets at this hour aggregate approximately \$15,000,000,000 dollars.

It requires no genius to detail the countless blessings flowing from the financial forces centered in the insurance world, the thrift they have inspired, the want and suffering they have averted, the bereavements they have made lighter to bear, and the mighty part they have played in the building of America.

From the stretching of railroads across the continent to the building of towns and cities beyond the western reserve, the story of capital, wisely furnished, is one in which

every insurance executive in America should evince a pride.

As money should be loved or hated for the things it does; condemned when it crushes and praised when it lifts our burden, no agency through which money has been combined and invested has wrought more wholesome results than American insurance. A dollar in the hour of adversity has a value all its own.

Insurance is the one investment in which we are building for tomorrow, and that in itself is a mighty mainspring in human achievement.

Building for Tomorrow

WHEN Caecus built the Appian Way and advanced Roman civilization to the zenith of its glory, he builded for tomorrow.

When Pericles found Athens a city of mud and left it a city of marble he builded for tomorrow.

When Columbus defied the hardships of storm and sea and planted the cross on American soil he builded for tomorrow.

When Washington laid the cornerstone of this Republic and Lincoln struck the chains of bondage from four million human beings, and laid broader and deeper than ever before the foundation of the Republic, they builded for tomorrow.

And so, I repeat, the millions of people who are constantly contributing to the combined capital of the insurance companies of this country, are building for tomorrow.

Developing the Railroads

ANOTHER channel through which combined capital has wrought wonders is found in the great railroad systems that unite Northern Lake and Southern Gulf and Eastern and Western Sea.

What that great network of transportation has done for America in time of peace and for the whole world in time of war needs no recounting here.

Had we depended upon small units of capital and separate ownerships, a thousand jerkwater railroads with different schedules and different rates would still be handicapping American business.

The trunk line would be unknown and the luxurious express that plunges up and down the continent at lightning speed by night and day would be a dream of something yet to come.

But combinations of capital and courage have knitted the Republic together with threads of steel, to the end that our social, industrial and political activities and aspirations have been woven into a fabric finer and more formidable than the world ever knew before.

Trains carry passengers North and South for 1500 miles, and East and West over 2300 miles in unbroken journeys, while one can travel 3200 miles across the continent with but a single change of cars.

It is a wide gap between the Chinese coolie's wages of ten cents per day and the American railroad worker's wage of seven to twelve dollars per day, but it emphasizes the paradox when the high rate per ton mile for goods carried on the coolie's back is compared with the American freight charge of approximately a cent a mile.

In a word, America pays the highest transportation wages in the world and

charges the lowest rate of service in the world.

The fundamental difference is that back of the coolie there is no accumulated capital, while behind every American railroad man there is at least \$25,000,000,000 of invested capital.

The Pennsylvania Railroad alone originally consisted of more than 600 separate corporations.

They are now reduced and under control of the parent company, a three billion dollar corporate combination of American capital.

It is today spending millions of dollars in research work and the installation of improved instrumentalities, in order to keep pace with the exacting demands of the public in this golden age of speed and comfort in transportation.

Such is but one illustration of many in which the railroad world is substituting for the old spirit of selfishness the new spirit of service.

More Modern Public Utilities

AS to public utilities of more recent origin, twenty-five years ago the average light, heat and power and traction company was a financial cripple, an inefficient public servant, a handicap to the community and a perpetual football of a low order of politics.

Every demagogue who ran short of a meritorious appeal to his constituents invoked what gradually became a threadbare attack upon these public service corporations.

Combined capital finally came to their rescue, discarded their archaic equipment, eliminated their provincial policies, and substituted enlightened business management in their stead.

Holding companies came to the aid of single units.

They next merged separate local properties in the same community under a higher class management.

They next combined many companies spread over a broad area eliminating useless and costly duplications of equipment and service, furnishing wider financing possibilities and increasing the stability of securities in such a manner as to inspire willing and widespread public investment.

As the virtues of this new era in management became apparent many community-owned plants, realizing the folly of their continuance at enormous cost to the public, were gradually sold to the more scientifically conducted business enterprises.

During the last year alone more than 100 plants in the United States were sold by municipalities to enterprising, well managed public utilities corporations.

An impressive lesson is taught when we contrast the beneficent results of these combinations in the United States with the conditions that prevail in England in the electric world.

Contrast an Object Lesson

IN London alone there are about 110 electric light plants, hardly any two of which operate with the same voltage or frequency. Each has its franchise in a particular ward within the limits of London in which it operates. The public uses electric appliances to a minimum degree, because different sections require not only different voltages, but different appliances.

Each of these companies has small capital, a small plant, and generates a small volume of power, making the service cost to the public many times greater than that in the United States.

It is strange, indeed, that a people whose commerce has circled the world should persist in paying all the penalties of poor service at high cost for lack of combinations of capital in the manufacture and distribution of light, heat and power in the Capital of the British Empire.

In striking contrast with this, our American combinations of capital have brought about the correction of abuses, the institution of economies and the perfection of efficiencies that never before marked the public service.

Capital and Holding Companies

MUCH of this is due to the recent development of holding companies. In fact, holding companies have created a new profession, devoted solely to the creating and directing of these great enterprises with all their varied activities from the investment in their securities to their mechanical equipment and the last detail of their management.

Those comprising that profession have a dual duty. They are in the very highest sense both private trustees and public servants, whose duties bring them in touch with the people every hour of the day and night, as the mighty engines and agencies under their command dispel darkness and keep the world in motion.

This, of course, reminds us that while combinations of capital are a potent factor, they are not the dominant feature in their conduct. Vast capital is essential to their creation and their continuance, but, after all, the brain and hand of God's geniuses are entitled to the higher degree of credit. Brain, and not wealth, will always be the greatest dynamic force in America's development.

In proof of this I point to the executive heads of the leading corporations of this country, and I defy you to point to a single one who holds his post merely because of his wealth and not because of his ability.

They regard themselves as trustees of the millions of Americans whose investments they represent and the public whose interests they serve.

And what are these investments?

Some conception of their extent may be had from the fact that the total capital stock of corporations in this country at the present time is approximately \$80,000,000,000, distributed among nearly 20,000,000 stockholders.

This number is multiplied when we realize that our insurance companies own over \$2,000,000,000 in railway bonds, and these companies in turn represent the equity of approximately 50,000,000 policy holders.

Combined Capital's Outstanding Leaders

BOTH the modern tendency toward large aggregations of capital and the distribution of stock ownership among vast numbers of people is found in eight of the hundreds of thousands of corporations at

present conducting the great bulk of American business. Let me call the roll:

Corporation	Stockholders	Capital
American Telephone and Telegraph....	362,179	\$1,064,327,800
U. S. Steel Corporation	166,350	1,071,904,600
Pennsylvania Railroad	141,504	499,265,700
Cities Service Co....	109,374	192,000,000
Southern California Edison Co.....	100,687	121,565,475
Standard Oil Co. of New Jersey.....	81,000	24,145,219
General Motors Co..	86,000	176,085,000
U. S. Rubber Co....	26,898	146,110,000

All this proves that America's great enterprises today are owned not by the few but by the citizenship of the nation.

Oil Industry Development

A STRIKING illustration of the necessity for combined capital in modern business is found in the great petroleum companies that pierce the breast of a thousand fields from Northern Star to Southern Cross; whose product lubricates the millions of machines that move the world; that fires the furnace, heats the home and lights the Pagoda in far away Cathay and the tent in the distant jungle.

I was born where the fire flag lighted up the night in the oil fields of western Pennsylvania.

I have followed petroleum's romantic journey from the headwaters of the Allegheny to the sun-kissed sands of the Golden Gate. I have followed it into the jungles of the tropics, across the sands of the desert, and again to those Russian hills in whose bosom lies the wealth of Golconda.

As a consequence I am convinced that the world could not move at its present rate of speed in travel and industrial accomplishment were it not for the marvelous accomplishments of combined capital in that field of world-wide activity.

In the early days when development depended upon the energy and capital of individuals, two dry holes in a wildcat territory spelled disaster for the individual and frequently ended for years the development of all adjacent territory.

Had that precarious method of development continued the world would be dark for want of illumination and its bearings would be burned out for lack of lubrication.

Fifteen years ago our oil business was appraised at \$2,750,000,000, while today it exceeds \$8,000,000,000.

When I was a boy a lease could be acquired, a rig equipped and a well drilled for \$2,000. In 1925, to drill the average well in California cost \$87,000, while the average for all other parts of the country was \$24,000. And yet the cost of drilling is but a single item in the mighty aggregate of oil investment today.

In South America

DEVELOPMENT of oil deposits in the northern sections of South America have required greater combinations of capital than ever for their development.

Tropical climate, lack of organized transportation, and political instability have all added their burdens.

The development of these fields has involved the construction of transportation systems through tropical jungles and the delivery of equipment from distant bases on the seacoast. There is the problem of labor, which means the importation of technical and mechanical experts into strange climates, and ultimately the training of native workers to new tasks. Next came the grave problems involving sanitary conditions in tropical countries, in which disease and death are often the price of success. While an ordinary single field in the United States could be developed and its product marketed with ease in six months, it has required six years to develop some of the fields in South and Central America, and frequently in excess of \$25,000,000 and in some countries double that amount to develop a field and bring its product to the market.

The development of a single field in Colombia and the construction of a pipe line to tide water by a subsidiary of the Standard Oil Company of New Jersey required an expenditure of \$45,000,000 before exports of oil were possible.

All this forms another chapter of achievement to the everlasting credit of combined capital without which many sections of the world now prosperous would still be impoverished frontiers.

Supplying manufactured gas to the public efficiently is requiring the investment of hundreds of millions of dollars annually while its volume of business has increased 32 per cent in the last five years.

As a consequence of combined capital, America's leading gas corporations are expending \$6,000,000 annually in research work, every dollar of which is bearing fruit in the form of continuously added uses and reduced cost to the American consumer.

The Story of Steel

THE story of steel is another illustration of the beneficent fruits of combined capital.

With the birth of the twentieth century the real possibilities of the steel industry were revealed in the dreams of those geniuses who saw in the distance the virtue of single control of all the operations from the mining of the ore to its smelting into iron, and the conversion of iron into steel and steel products—one continuous operation performed under the direction of a single organization, eliminating the waste incident to the process when performed by a large number of different organizations each under a separate management.

The constant development of new methods required costly changes from year to year, in order to keep pace with the rapid progress in the art of steel making. All this involved enormously increased capital and the necessity for a great organization controlling vast resources and the power to administer those resources in such a manner as to advance the industry as a whole.

The rise of the steel industry from that day to this borders on romance.

In its first twenty-five years the United States Steel Corporation did an aggregate gross business of \$23,441,000,000.

At the same time it has encouraged the spirit of cooperation through employee ownership of its stock. At the close of 1925, employees numbering 47,647 owned 164,000

shares of preferred and 502,000 shares of its common stock.

In 1906 it inaugurated its safety, sanitation and welfare campaign to protect its workmen from injury or death, and to master the best methods in science, economy and sociology, in order to promote the health, comfort and efficiency of its employees and their families.

As a result, in 1925 serious accidents were 60 per cent less than in 1906, and disabling accidents were 80 per cent less than in 1912. In other words, 47,000 men were saved from serious injury and 322,000 men saved from any injury which would have resulted in loss of time.

The corporation has also established communities, schools, clubs, educational facilities, playgrounds, and other conveniences and benefits for its workers and their families during the last 13 years at a cost of \$160,000,000.

Introducing Aluminum

WHEN the Aluminum Company of America was incorporated in 1888, aluminum was a laboratory metal of scientific interest only, with its uses unknown to industry, while its cost of \$8 per pound deprived it of commercial value.

As a result of its never ending perseverance and the courageous combination and additional investment of capital through many years of adversity, this company has introduced aluminum to the world, discovered uses for it in practically every industry, and has reduced its cost 3200 per cent to 27 cents per pound.

The research work in which the company engages from year to year averages approximately three-quarters of a million dollars.

Beginning in 1888, with an investment of \$20,000, with a daily output of a few pounds, in a small plant employing five people, it has today a combined capital investment of \$150,000,000, with a capacity for 70,000,000 pounds per year and employs 20,000 people.

The Electric World

ANOTHER conspicuous contribution of combined capital to the health, comfort and convenience of mankind is found in the electric industry.

Take the history of the Mazda lamp alone.

In 1879, after searching the world and testing 3000 different materials, Edison produced the first incandescent electric light by means of a carbon filament.

The General Electric's development of the Mazda lamp in seventeen years has added 600 per cent efficiency to scientific lighting.

Without the Mazda lamp it would have cost two billion dollars to have produced the amount of light the American people used in 1920. Instead, the total cost was only \$500,000,000, with the gap growing wider and the saving greater as each year goes by.

During the war the Mazda lamp turned night into day, and if the country in that emergency had depended upon the lamps used, even as late as 1911, it would have required an additional investment in equipment of \$3,500,000,000 to supply the same amount of light.

In fact, it would have been impossible to have obtained this amount of equipment in
(Continued on page 429)



CRAIG B. HAZLEWOOD

Vice-President Union Trust Company of Chicago, Who by the Action of the 53rd Convention Becomes First Vice-President of the American Bankers Association

Within the Law

By SILAS H. STRAWN
President of the American Bar Association

In Rendering All the Service That Business Now Demands the Banker Must Keep within Legal Bounds. The Willett vs. Herrick Case in Which a Verdict for \$10,535,000 Against Bankers Was Reversed. The Dangers Accommodation Led to.

IT was in the brain of Alexander Hamilton that the idea of a national bank originated. The purpose of the bank, as conceived by Hamilton, was to unite the interests of the moneyed classes in the support of the government credit, which at that time was in a bad way. Although the present system of national banks avoids the danger of extreme centralization in a single institution, which was the objection to the first bank, the policy of national banking and the general principles upon which our present banking system are based were devised by Hamilton and contained in his now famous report to the Congress, dated Dec. 13, 1790.

Those of you who have read the often quoted opinion of Chief Justice Marshall in *M'Culloch v. Maryland* know that the great judge followed the same line of reasoning as did Hamilton in sustaining the power of the Congress under the Constitution to authorize the incorporation of a bank. It was in *M'Culloch* against Maryland that Chief Justice Marshall said:

"The Government of the United States, then, though limited in its powers, is supreme; and its laws when made in pursuance of the Constitution form the supreme law of the land, 'anything in the Constitution or laws of any state to the contrary notwithstanding.'"

"Among the enumerated powers we do not find that of establishing a bank or creating a corporation. But there is no phrase in the instrument which, like the Articles of Confederation, excludes incidental or implied powers; and which requires that everything granted shall be expressly and minutely described."

"The government, which has a right to do an act, and has imposed on it the duty of performing that act, must, according to the dictates of reason, be allowed to select the means; and those who contend that it may not select any appropriate means, that one particular mode of effecting the object is excepted, take upon themselves the burden of establishing that exception."

"Let the end be legitimate, let it be within the scope of the Constitution and all the means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the Constitution, are constitutional."

"After the most deliberate consideration, it is the unanimous and decided opinion of this court that the act to incorporate the bank of the United States is a law made in pursuance of the Constitution and is a part of the supreme law of the land."

Then Financial Chaos

WHEN the charter of the first bank expired, Congress refused to renew it, and the first United States Bank, organized on the plan of Hamilton, went out of existence on March 3, 1811. Then ensued financial chaos until 1816, when the charter of the second bank, closely resembling the first, became a law.

In his first message to Congress on Dec. 8, 1829, President Jackson expressed doubt as to the constitutionality of the bank and the soundness of its notes. President Jack-

son's hostility toward the bank was said to be based on the "widespread belief that the bank was unconstitutional, the hostility of the states, the opposition of the state banks, the rise of democracy and the envy and hatred which the poor always feel for the rich." Thus the second bank failed to obtain an extension of its charter.

From 1836 to 1863 many kinds of banking systems were attempted, but none proved satisfactory, due to the lack of uniformity in bank notes, the failure adequately to protect them and the absence of any effective governmental control. Thus, after much discussion, the act creating a national banking system became a law on Feb. 25, 1863. Later it was completely revised and passed again on June 3, 1864.

This act gave the country a system which promoted confidence and security, but it was weak in its ability to meet seasonal credit demands and in the immobility of reserves. The extent and seriousness of these weaknesses were realized in the panic of 1907. As far back as 1894 the American Bankers Association had proposed plans which would give to the country a more elastic currency and credit system, but it was not until the panic of 1907 that the Congress was awakened to the necessity of action which finally resulted in the passage of the Federal Reserve Act. And now, due largely to the intelligent and persistent efforts of this Association, and especially to the indefatigable industry, tact and ability of its President, banking has the greater freedom and power granted by the McFadden-Pepper Act.

I take it to be the purpose of the American Bankers Association to develop and improve the banking systems of our country; to endeavor to bring about the adoption and enforcement of wise and just laws respecting banks and banking; to educate bankers how to conduct their banks so as best to serve the interests of their stockholders and to furnish to the people necessary and dependable facilities for doing business.

Range of Activity Increases

THE banker's range of activity is increasing constantly. Almost every day he opens some new department, so that now bankers not only have commercial and savings banks, but they execute trusts, administer estates, act as fiscal agents, deal in securities and real estate loans, form security companies, are interested in investment trusts and in many other activities incidental to their principal business. Not only must the banker be familiar with the general principles appertaining to the busi-

ness of his many clients, but he must also know something of every kind of business and industry, and he must know the relation of different lines of business and industry to each other. He must be a business pathologist, able not only to diagnose the troubles of his clients or patrons, but also to apply a remedy, sometimes internal and sometimes external. He must be a business osteopath, with a touch soft enough to manipulate delicate situations, yet with a grasp of sufficient vigor to force a dis-jointed or dislocated vertebrae or limb back into place. Finally he must be a business coroner, capable of directing an accurate verdict by a jury, sitting upon the corpse, and the best final disposition of the remains.

In doing all these things, the banker always must keep within the law, for he is an ever shining mark for attack, just or unjust, friendly or malicious.

In some minds a bank means a cache for predatory wealth and, therefore, is a legitimate subject for loot. They do not realize that a bank is but an instrumentality for handling and making liquid other people's money. Too few of our citizens understand that every man and every woman, whether worker or shirker, rich or poor, is directly dependent upon capital. Capital is only another name for savings. We are all capitalists to a greater or less extent as we or our ancestors have accumulated savings.

Many bankers out of their daily experience could furnish the material for stories more thrilling than any conceived in the romances of our writers of fiction.

I have thought it might be of interest, and perhaps to some a helpful warning, if I refer to a few of the cases involving banks which have come before the courts in the past few years.

The case of *Willett vs. Herrick*, decided by the Supreme Court of Massachusetts on March 9, last, is one which has attracted the attention of bankers throughout the country. The suit was brought to recover from a group of bankers damages alleged to have been sustained because the bankers, it was charged, had entered into a conspiracy to deprive the plaintiffs of their property by taking it over in the capacity of trustees as security for debts and thereafter converting it to their own use.

Trial Lasted 185 Days

AFTER a trial lasting over a period of 185 days, the jury found that a conspiracy existed and returned a verdict against the bankers for \$10,535,000.

The Supreme Court of Massachusetts reversed the judgment of the trial court and held there could be no recovery because the plaintiffs had signed certain releases with full knowledge of their contents. A petition for a writ of certiorari has been filed in the Supreme Court of the United States on the ground that the plaintiffs are deprived of their property without "due process of law" and the "equal protection of the laws" guaranteed by the Fourteenth Amendment to the Federal Constitution. The petition concludes with a novel proposition which I quote:

"National Banks were created for supplying the public need of funds and banking facilities and for this purpose were endowed with privileges which include the quasi-sovereign power of issuing bills which, in fact, are current as money throughout the country. The spirit of this act is grossly violated by the extortionate terms of the transaction of July 29 and the vicious use by the defendants of their power to get the plaintiff's corporations for very little of their value finds no justification in the exaction of interest at the rate of 27.6 per cent a year for the perfectly safe loans made by the banks. There is nothing more odious than judicial favoritism and when, as in the present case, such discrimination has been exercised in favor of bankers, it is as offensive to the Fourteenth Amendment as would be legislative discrimination against them."

I cite this case to indicate the risk the banker may assume in liquidating a failing business.

The Dangers of Accommodating

AN interesting case on how easy it is for a banker to be exposed to large liability simply by accommodating a friend in a transaction out of which there was no chance for the banker to make a cent, is that of *Golden vs. Cervenka*.—The officers and directors of a National Bank determined to reorganize the bank as a state bank, with the avowed purpose of acquiring banking powers then denied to national banks. There were no statutory provisions enabling the reorganization of a national bank into a state bank. The plan adopted was the organization of a state bank having the same capital and surplus as the national bank, \$1,250,000; issuing stock to the same shareholders in the same proportion, and having the same directors, officers and organization in every particular as the national bank.

Under Illinois law, it was necessary to have paid in, in cash, the entire capital and surplus, with which the bank proposed to commence business. To meet this requirement, the following program was carried out: All the stock of the state bank was subscribed by twenty-one individuals. Ten persons among whom were some of the subscribers, executed their several promissory notes, each for \$125,000, payable to the National Bank. These notes were not expected to be paid. The amounts, however, were placed to the credit of the makers, each of whom then gave his check for the same amount to the bank, which placed the aggregate amount of these checks to the credit of the proposed new state bank. Then the president of the national bank called upon the president of another bank, which for the purpose of this narrative I shall call the "accommodating bank," and told him he would want an amount of money equal to the capital and surplus of the new bank, to be counted by the State Auditor, in compliance with the requirement of the Illinois law, and that the new bank did not have that much money. He asked if the president

of the accommodating bank would furnish the money on a cashier's check of the liquidating National Bank. The president of the disinterested accommodating bank agreed to do so. A check for \$1,250,000 was drawn on the stock account of the new bank in favor of the old National Bank, which was accepted by the national bank and a cashier's check of the national bank was then issued in the same amount, payable to the accommodating bank. After the state auditor had been furnished with affidavits of nine directors of the new state bank that the new bank had in its possession \$1,250,000 in cash, the president of the old national bank and who was to have the same position in the new state bank, went with the auditor to the accommodating bank and there presented to the cashier the cashier's check payable to the accommodating bank in the amount of \$1,250,000. The cashier delivered \$1,250,000 in cash, which was counted by the state auditor in the office of the accommodating bank. The money having been counted, it was handed back to the cashier of the accommodating bank, who returned the cashier's check issued to the accommodating bank. Thereafter, the assets of the national bank were transferred to the state bank and stock in the state bank issued to the stockholders of the national bank.

Two years later the state bank being insolvent a receiver was appointed. The receiver sought to impose on the accommodating bank liability for having temporarily furnished the capital to qualify the new bank to do business. As a protection to the public, the law required the capital and surplus to be paid in in cash before the bank commenced business.

The court held that the creditors could hold the accommodating bank liable to the creditors, but not to the stockholders of the insolvent bank, for participating in the misrepresentation that the capital and surplus of the state bank had been paid for in cash, thus leading to the issuance of a certificate by the state auditor permitting the state bank to commence business, the amount of the recovery being the difference between the capital stock of \$1,250,000 and the actual value of the assets of the national bank at the time they were transferred to the new state bank.

The case is a warning that banks may not accommodate other banks, undergoing reorganization in the manner described, with safety, in reliance upon the book value of the assets of the bank undergoing reorganization.

Directors' Liability

AN important consideration, especially for those directors who are not actively engaged in conducting a bank, is that of a director's liability.

Bank directors, like the directors of other corporations, owe a duty to creditors and stockholders to exercise care and diligence in managing the affairs of the corporation, and, owing such a duty, may be liable for loss sustained by creditors and stockholders resulting from their neglect of that duty.

The degree of care required by a director of a corporation depends upon all the circumstances of his office. The courts uniformly have held that each case is to be determined in view of all the surrounding circumstances. Due to the requirements of the

National Bank Act, the oath of office, etc., and in the case of state banks provisions of state statutes requiring quarterly examination by the directors of the affairs of the bank, etc., and also to the fact that a bank is a depository for funds of individuals who place trusts in the bank, a bank director is put on notice that a higher degree of care is required of him than of directors of other corporations. Certain decisions have commented on the fact that an especially high degree of care and diligence is demanded of directors of a savings bank.

Three leading cases on the subject are *Briggs vs. Spaulding*, 141 U. S. 132; *Bowerman vs. Hamner*, 250 U. S. 504; and *Walsh vs. Billings*. In the last named case certain stockholders of an insolvent national bank brought suit against a director alleging that funds and property had been lost by reason of the negligence of the director in failing to perform his duties as such. The bill charged that the director of the bank from 1892 until its failure in 1905 paid little attention to its business during the first nine years of that period and that after 1901 he neither attended any directors' meetings nor made any inquiry into the condition of the bank, and that in the year 1901 he had entered into an agreement with the president of the bank which provided that so long as he was a director he would exercise no supervision over its business or affairs.

The court, in affirming the judgment of the lower court sustaining the demurrer and dismissing the suit, regarded as important the fact that the accused director was a non-resident, but relied in its decision on the further fact that the allegations of the bill failed to show that the loss to the bank was the proximate result of the director's neglect of his duty as a director, and also on the fact that the bill was a bill filed on behalf of stockholders (not creditors) who, over a period of years could have easily discovered for themselves the condition of the bank. On that subject the court said:

Stockholders Have Duties

"The stockholders have something else to do besides drawing dividends. By the action of Walsh, extending over a series of years, the complainants in this case as stockholders of the bank were during that time rendered liable to the depositors and creditors of the bank. * * * They are complaining of the very things which they should have inquired about and had knowledge of and which they acquiesced in for a series of years. They are the ones who participated in the election of the board of directors dominated by Walsh, who, in turn, elected Walsh president and turned the management of the bank over to him."

Had the bill been brought by creditors and not by stockholders, the negligent director might have been held liable.

In the *Bowerman vs. Hamner* case, suit was brought by a receiver against the former executive officers and directors, to obtain an accounting and decree for money lost by the alleged unlawful and negligent management of the affairs of the bank.

Bowerman was the largest stockholder in the bank save one. He was a director during the five years of the bank's existence, but never attended a directors' meeting. He sought to excuse this conduct on the ground that he lived 200 miles from the bank and communication was difficult. The evidence showed that Bowerman, although a banker of ability who was influential and trusted in the community, paid no attention to the management of the bank during the time he

was a director. The bill charged the negligence of the defendant, and this allegation was sustained by evidence introduced at the trial. The court said in its opinion:

"Bowerman was a banker, and the letter, from which we have quoted, written to the president of the bank which failed, shows he so understood the business of banking and what was necessary for the safe conduct of it that even slight care on his part in the discharge of his duty as a director must have discovered and arrested what he himself characterized as a hazardous manner of conducting its affairs.

"He was a man of such importance and reputation that the use of his name must have contributed to securing the confidence of the community and of depositors for the bank, and it would be a reproach to the law to permit his residence at a distance from the location of the bank, a condition which existed from the time he first assumed the office of director, to serve as an excuse for his utter abdication of his common-law responsibility for the conduct of its affairs and for the flagrant violation of his oath of office when it resulted in loss to others."

The Power of Attorney

A RECENT case on the banker's liability for deposits of a fiduciary is that of *Empire Trust Company vs. Cahan*. The respondent having bank accounts with two banks in New York City, gave to his son power of attorney to draw checks upon them, with no qualification as to the purposes for which the checks might be drawn. The son drew checks signed with his father's name by himself as attorney, against the two accounts, payable to his own order, and deposited them to his private account with the Empire Trust Company. The checks were certified by the drawee banks. The son drew out the funds from his personal account and applied them to his own use.

The District Court of the United States held that the form of the checks gave sufficient notice to the Empire Trust Company to hold it liable for the conversion of funds of the father deposited with it. The Circuit Court of Appeals sustained the District Court. The Supreme Court reversed the lower courts, holding that the rule applied by the court below was too strict a rule for an ordinary business transaction. Mr. Justice Holmes in the opinion points out the fact that the power of attorney was general; that the parties were father and son and that the father was careless in not discovering the misappropriation for almost three years.

From a practical standpoint cases of this sort raise a question of business policy, whether it is desirable on the basis of the facts known to the bank to investigate the conduct of the depositor. The bank might make inquiry of the depositor, but such inquiry might naturally be regarded by the depositor as officious and insulting, and in most cases if the depositor were, in fact, acting wrongfully, his answers would be false and of no avail in preventing breach of trust. Therefore, it would seem to be almost impossible practically for banks to make any real investigation of the circumstances before deposits are received.

Although in most states a bank is probably safe in accepting checks of a fiduciary and depositing them to the credit of his personal account, yet there may be circumstances other than that disclosed by the checks themselves which would make the banker liable to the principal.

In a New York case it was held that where an executor drew checks on the account of the estate to his own order and deposited them in his personal account with

the bank and thereafter paid off a part of his personal note to the bank with the funds from his personal account, the court held that although the bank could rely on the presumption that the executor's action in depositing trust funds in his personal account was proper, nevertheless it was charged with notice of the impropriety of all such deposits after the payment by the executor of his own debt to the bank out of trust funds.

The Uniform Fiduciary's Act, adopted in several states, for which the American Bankers Association was largely responsible, solves the problem on the side of non-liability.

When Drawer and Payee Are the Same

A RECENT case of much interest on the proposition that if the drawer and drawee of a check are the same, the drawer cannot recover for an overpayment to an innocent payer, because he is bound to know his own checks, is that of the United States against the National Exchange Bank of Baltimore, decided by the Supreme Court of the United States on April 12, 1926. That was a suit brought by the United States to recover the difference between the amount to which a check paid by it had been fraudulently raised and the amount for which the check was drawn.

A disbursing clerk drew a United States Veterans' Bureau check upon the Treasury of the United States in favor of one Beck for \$47.50. After its issue, the check was changed so as to call for \$4,750. Beck indorsed it to a bank of South Carolina and received the amount of the altered check. That bank indorsed it "Pay to the order of any Bank, Banker, or Trust Company. All prior indorsements guaranteed, June 3, 1922," and negotiated the check to the National Exchange Bank of Baltimore. That bank indorsed the check "Received Payment through the Baltimore Clearing House, Indorsements Guaranteed, June 5, 1922," delivered it and received the same amount from the Baltimore Branch of the Federal Reserve Bank of Richmond which, of course, was the agent of the United States. This Federal Reserve Branch forwarded the check to the Treasury of the United States and was given credit for \$4,750. The Baltimore Branch had no notice of the fraudulent change.

The government argued that acceptance or payment of a draft or check, although it vouches for the signature of the drawer, does not vouch for the body of the instrument, and further argued that the drawer and drawee of the check were not the same in such sense as to charge the drawee with knowledge of the amount of the check, and that, therefore, the government could recover for money paid under a mistake of fact. Mr. Justice Holmes, in the opinion, held that if a drawer and drawee of a check are the same, the drawer cannot recover for an overpayment to an innocent payee because he is bound to know his own checks.

The government attempted to escape from that conclusion by asserting that the hand that drew and the hand that was to pay were not the same. The court denied this contention and held that great business houses are no less responsible than small

ones; that the United States does business on business terms and that when the United States issues an order upon itself it has notice of the amount, and when it comes to pay to the innocent holder making a claim as of right, it is at arm's length and takes the risk.

Negotiability of Interim Certificates

IN the case of *Manhattan Company vs. J. P. Morgan, J. P. Morgan & Company* issued temporary certificates whereby the bearer was to be entitled to bonds of the Kingdom of Belgium if, as and when bonds in definitive form were delivered. The temporary certificate included the provision: "Every taker and holder of this certificate and the attached warrant hereby agrees that the undersigned may treat the bearer of this certificate and the attached warrant as the absolute owner hereof and thereof, as the case may be, for all purposes, that the undersigned shall not be affected by any notice to the contrary."

Three temporary certificates were stolen from the owner and delivered to the plaintiff which took them for value and in good faith. The plaintiff tendered the certificates to the defendants to be exchanged for definitive bonds. The defendants refused to make the exchange because of notice of the theft. The question raised was whether or not the temporary certificates were negotiable instruments.

In an opinion of the Court of Appeals of New York, delivered by Justice Cardozo, the court sustained the trial court and the Supreme Court in denying recovery, holding that the temporary certificates were not negotiable. Evidence was introduced as to business custom in treating such certificates as negotiable. The court held that such evidence was immaterial, as by Section 20 of the Negotiable Instruments Law the several requirements for negotiability are set out including "an unconditional promise or order to pay a sum in money." (The instrument) "must be payable on demand or at a fixed or determinable future time." Also Section 23 provides "An instrument payable upon a contingency is not negotiable and the happening of the event does not cure the defect." Section 24 declares non-negotiable any "instrument which contains an order or promise to do anything in addition to the payment of money."

The court held that under the express provisions of the Negotiable Instruments Law temporary certificates were non-negotiable and "the law merchant cannot prevail against prohibitions so specific. Holding otherwise we should do more than supplement the statute, we should disregard or contradict it."

A Good Record

CONSIDERING the volume of business done, the daily temptations to which they are subjected and the many opportunities to make mistakes, I submit that cases in which bankers have been held liable civilly or criminally are surprisingly few. Therefore, may we not conclude that the banker in the conduct of his business, as well as in his daily life, is generally well within not only the civil but the moral law.



JOHN G. LONSDALE

*Second Vice-President American Bankers Association and President
National Bank of Commerce in St. Louis*

Early Banking and Big Business

By JAMES WESTFALL THOMPSON
Professor of History, University of Chicago

Full Fledged Banking Houses Were Flourishing in Italy as Early As the Thirteenth Century. The First International Banking Came With the Collection of the Papacy's Revenues In Foreign Lands. Financing of Warring Kings Followed.

PRESENT-DAY business practice owes a much larger debt to the Middle Ages than the average business man realizes. When he thinks of origins, if indeed he ever thinks of them, the word banking may suggest to him Alexander Hamilton or Andrew Jackson and their efforts for and against the First and Second Banks of the United States; or, if his knowledge extends beyond the borders of his own country, he may turn to the Bank of England or the Bank of France. Commercial paper may to him begin with the warehouse receipts which passed for currency in colonial Virginia. And insurance is quite likely to call to his mind imposing reproductions of the Rock of Gibraltar. He might and probably would be surprised to learn that his predecessors of the late Middle Ages were familiar with these and other business devices which he uses every day.

The Italian Renaissance of the fourteenth and fifteenth centuries was just as truly an economic revolution as it was a new literary and artistic movement. Italian spirit, Italian initiative, found new expression in business and banking quite as originally as it found expression in the arts and in literature. The spirit and the practice of the new age were essentially capitalistic in nature. "Capitalism is much older than we have ordinarily thought. No doubt its operation in modern times has been much more engrossing than in the Middle Ages or in the Renaissance. But that is only a difference of quantity, not a difference of quality; a simple difference of intensity, not a difference of nature."

How Capitalism Developed

CAPITALISM has developed through the centuries from medieval to modern times by a series of "lifts." Before the eleventh century, when the Crusades stimulated commerce and trade, when the towns began to rise, the capitalist class in Europe was composed of the great landed feudal aristocracy, nobles and clergy; for the Church was the greatest landowner of all. It was an age of "natural economy," not a "money economy," in which the proprietary class produced little beyond its own wants and consumed hardly anything not locally produced. As individual property increased, and along with it differences in the amount of private property owned by each developed, the rich tried to derive advantage from their riches, consisting mainly in lands, either by sustaining men of no means (serfs) upon their estates, or by allowing men of lesser substance to utilize part of their lands or share their preroga-

tives—as market rights, imposition of tolls, coinage—in a subordinate capacity in return for certain obligations in the form of dues and the performance of military service for them. In the latter case such landholders became liegemen (or vassals) of the overlord (suzerain). This was the economic basis of the feudal system.

This rich proprietary class also possessed another sort of wealth in addition to land in the form of family plate, church plate, bullion, hoarded coins, jewels, etc. The Church especially was rich in this kind of wealth. But it was idle wealth, immobile and unproductive. "The revenues which the landowners collect from their serfs or from their tenants are directed to no economic purpose. They are scattered in alms, in the building of monuments, in the purchase of works of art or of precious objects which serve to increase the splendor of religious ceremonies. Wealth, capital . . . is fixed, motionless, in the hands of an aristocracy, priestly and military." It was necessary for all this immobile and locked-up capital to become fluid and to be invested so that wealth might produce wealth before real capitalism could emerge.

Money Economy Developed

VARIOUS theories have been propounded to explain this transformation. Sombart's theory is that the revolution was brought about by the monetization of ground rents formerly payable in produce, followed by the conversion of much hoarded bullion and plate into currency. But this is only half an explanation. The root of the change lay in the new necessity and development of a money economy. This was forced forward by the revival of commerce in the eleventh and twelfth centuries, which was partly independent of and partly stimulated by the Crusades. This change, in turn, stimulated the rise of the towns and the formation of the bourgeoisie. Towns, trade and capitalism emerged together in Europe. Merchandising, manufacturing, banking, business technique, credit, all are of urban origin. Then capital came to have a new sense; it was a value hatching a new value, or as Karl Marx put it: "Mehrwert heckenden Wert." Instead of being immobile, as formerly, wealth now became fluid. Production was considered in terms of value in money as a means of gaining greater values. Services were no longer required of vassals and serfs, but were converted into money payments. Paid labor paid better than compulsory services. Free workmen were found more productive than servile workmen. Business contracts replaced the old feudal

and manorial ties. The accumulation of previously rural ground rents, now monetized, was increased by new urban rents. The towns became commercial and industrial centers, the greatest of them having international commercial relations.

Italy was the earliest country in Europe in which a capitalistic régime and a capitalistic society appeared. The reason is twofold. In the first place, owing to Italy's geographical position and peninsula shape, the cities of Italy were able to tap the rich Levantine trade, a commerce essentially in luxuries like silk, spices, rare dyes, precious stones from the Orient, which returned enormous profits upon little bulk. A Venetian galley plying between Venice and Alexandria commonly paid 1000 per cent dividends upon a round trip, taking out iron and timber to ironless and timberless Egypt and returning laden with silk and spices.

In the second place, the papacy drew down into Italy the enormous ecclesiastical revenues of all western Christendom derived from Peter's pence, the census, tithes, indulgences, fees for appellate causes, etc. The annates alone represented the entire income of a diocese during the first year of a new bishop and were exacted as a fee for investiture. What these sums meant may be appreciated when it is said that the papal revenue out of England in 1252 was three times the revenue of the crown. The income of the Lateran in the thirteenth century must have far exceeded the income of all the princes of Europe taken together. Rome was not only the ecclesiastical capital of Europe; it was also the financial capital of Europe. In the thirteenth century the financial power of the papacy was like that of the great international banking houses of today.

First International Bankers

BANKING seems to have begun among the Lombard Jews first as a pawnbroking business. Gradually these branched out into money-changing and loans at interest secured by real collateral, and later by commercial products, manufactured or imported articles of commerce. In time the notes and warehouse receipts of these transactions developed into commercial paper. Naturally it was not long before the Italian merchants, having fared profitably, also began to invest their surplus wealth in these forms of investment, and in the thirteenth century full-fledged private banking houses are found, the earliest of them appearing in Siena and Florence.

From the pontificate of Gregory IX (1227-41) the important banking firms of

the Italian cities had agencies in Rome and abroad, in France, Flanders and England. Their chief function was to collect and to transmit the Peter's Pence and other ecclesiastical revenues to Rome. These papal clients united papal authority with their own fiscal influence to promote and to protect their own business operations. If an Italian merchant from Florence or Milan was robbed in France or England, or outrageously imposed upon by some noble, or could not collect a foreign debt, the Pope intervened in his behalf and usually papal pressure was successful.

"International banking derived its strongest impulse from the Church, whose revenues in Peter's Pence and the census were collected in distant countries, in a currency often depreciated and sometimes even in kind. The local branches of Italian banks, after satisfying the papal representative of the exact amount collected and the sum that would be payable in Rome, were able to remunerate themselves by using the money in their hands in ordinary local business. They seem, however, to have charged the Church for their trouble and expenses, sums of whose amount we know surprisingly little. . . . Schneider found only two instances in which these sums were stated, one being about 12¼ per cent and the other 25 per cent of the amount paid over in Rome. It cannot be doubted that the loans granted to Popes and the College of Cardinals were, in spite of the Church's thunders against usury, very profitable to the bankers." The Roman curia always protected the bankers against losses, and so debts due the papacy or papal obligations were the safest form of banking activity to engage in.

Banks Were Pope's Agents

THE Italian banking houses not only invested their own profits in business and handled the collection of papal revenues. They acted also as agents of the Holy See to invest its enormous surpluses. No Italian city was so successful as Florence in its fiscal relations with the Holy See. It was in the thirteenth century that the foundations of the great banking houses of Florence were laid—the Albertini, Albizzi, Ardicioni, Bardi (the father of Boccaccio was a trusted agent of the Bardi), Belli-cozzi, Ildobrandini, Borgo, Filippi, Gualfredi, Scala, Cerchi, Rimbertyni, Frescobaldi, Acquerelli, Leoni, Monaldi, Rocci, Scotti, Marcoaldi, Tedaldi, Spigliati. The Florentine banking houses steadfastly supported the Popes in their long political struggle with the Emperor Frederick II and got their reward. Their loans to papal partisans in neighboring cities which were political and commercial rivals of Florence undermined these places. This is conspicuously true of Siena, where the bankruptcy of the Gran Tavola ruined the city.

For Siena made the blunder of backing the wrong political horse in supporting the Emperor against the Pope. Until she adopted this fatal policy, Siena, and not Florence, had been the headquarters of papal banking. The chief Siennese banking house was that of the Buonsignori, called the Magna Tavola or Gran Tavola, the name being derived from the table of the money-changers. In 1289 its capital amounted to the then large amount of 35,000 florins. It

loaned money to popes, emperors, feudal princes, cities. But when Siena espoused the imperial cause and forsook the papacy, the popes removed their funds to Florence and left no stone unturned to discomfit Siena. In November, 1260, all the Siennese banking firms went to the wall in the crash of the Gran Tavola. The tourist may still see in Siena a medieval house built in 1234 by one of the earliest of Siennese capitalists, Angliere Solafica, on the front of which may be read the inscription: *Campsor Domini papae Gregorii IX.*

Between the years 1260 and 1347 Florence rode the crest of the wave of prosperity, and there were eighty banking houses in the city, the greatest of which were the Bardi and the Peruzzi. The financial dealings of these two houses were especially intimate with the Angevin kings of southern Italy and with England. In 1268 they looked upon the expedition of Charles of Anjou for the conquest of the kingdom of Naples and Sicily as a profitable speculation and liberally financed it, in return receiving the right to collect portoria and to manage the mines and salt pans as security. But in 1282 the success of Aragon in promoting the Sicilian Vespers, which ruined the French domination in Sicily, seriously crippled them, in particular the Bardi, who were heavily involved. Fortunately for them, it was to the interest of the popes to support the Angevin dynasty, and so the papacy rushed the Guelph bankers into southern Italy to the rescue of its protégés. The Florentines were in the vanguard of the rescue corps, and by the end of the thirteenth century had done their work so well that Charles II was completely in their power. The Neapolitan king surrendered part of his revenue and granted monopolies to cover the advances made by the bankers.

Whether the kingdom was at peace or at war, the result was the same: if at peace the rulers needed money for internal improvements or for keeping up their magnificent court; if at war, cash was needed to pay the troops. In either case the Florentines reaped the benefit. Such a good thing soon became widely known, and numerous houses sent their agents to partake of the rich profits which were to be made directly or indirectly out of the royal patronage. Of these the Bardi were the most important from the standpoint of money advanced; they furnished 10,000 ounces of silver in 1291, for instance, for payment of the papal tithe.

Both Lenders and Collectors

THIS gives an interesting illustration of the operations of the bankers. They were, as has been seen, agents of the papacy for the collection of the ecclesiastical taxes. They were at the same time the only ones possessing mobile wealth which was available for the making of loans. It thus often happened that they would loan needy individuals money with one hand and collect the same money with the other for transmission to the Curia. All alike became ardent Guelphs, "and their attachment to the Angevin family waxed with the profits which they derived from it." Arnold Peruzzi became counsellor and chamberlain of Charles II, and in 1308 his company paid a dividend of 40 per cent. As time went on

the main reliance of the throne came to be placed in a sort of syndicate which included the Bardi, Peruzzi and Acciajuoli, to which was added the Bonaccorsi about 1330. This group got a strong grip on affairs—so strong that it virtually dictated to the kings, complaining to them of the conduct of their own officials and forcing them to modify or ignore the laws of the land in so far as these conflicted with Florentine schemes of money-making.

The splendor of the court cost so much that the king was forced to give over more and more political and economic privileges to the bankers, and members of the firms came to occupy important royal offices. At the same time, however, they conducted these offices in such a manner as to alienate the masses of the people and thus sowed the seeds of their own downfall. The beginning of the end is to be seen in the failure of the house of Scali in 1328.

Somewhat later (1341) Florence became involved in a war with Pisa. This city had freed the town of Lucca from Florentine control, and the latter wished to bring it back under its domination. Not being strong enough to accomplish the affair alone, Florence sought outside aid. A political crisis ensued which involved an economic one as well, and several of the houses went under, including the Bonaccorsi, Cocchi, Antellesi, Usani, Corsini, Castellani, Perondoli, and others. The larger houses survived the crisis, but were badly compromised when the king of Naples repudiated a debt of nearly 200,000 gold florins to the Bardi and Peruzzi.

The Invasion of England

BUT the greatest financial operations of the Bardi and Peruzzi were in England. Isolated instances of Italian loans to the English kings go as far back as the twelfth century. Richard the Lion-hearted seems to have borrowed from them; for his brother and successor, King John, promised to pay the merchants of Piacenza a sum of money which they had advanced on the order of Richard to two English envoys sent to Rome, and in 1219 a certain Pietro Guibertini of Bologna came to Henry III and demanded payment of another loan which he alleged to have been made by himself and others to Richard.

But the real period of Italian finance in England began in the thirteenth century. Then Italian merchants flocked to England to purchase wool or to negotiate loans secured upon wool. The first occasion on which they played a prominent part was in connection with the effort of Henry III to secure the German and imperial crown for his son Richard of Cornwall. Almost at the same time these Italian merchant-bankers made Henry III another loan of 135,000 marks, which was expended in the vain endeavor to put his oldest son, Edward, afterward Edward I, upon the throne of Sicily. Edward borrowed Italian money to conduct his Scottish wars, and there is an intimate connection between the fall of William Wallace and the history of Florence. The king found loans more convenient than struggling with a reluctant parliament for subsidies.

During the first four years of the reign of Edward I, the Lucchese merchants were

largely employed in the financial operations of the crown. From his coronation in 1272 until Jan. 23, 1276, Lucas of Lucca advanced to Edward I sums aggregating £17,236 13s. 4d. The Mozzi of Florence became important during the period from 1277 to May 6, 1309, during which they lent £79,941 6s. 8d. During a shorter period (June 25, 1285-Nov. 18, 1293) the Riccardi of Lucca lent Edward I £56,240 18s. 1d. Other firms of lesser importance may be briefly noted: the Pulci of Florence, with whom were associated the Rimbertyni of the same city; the Ammanati of Pistoia, the Ballardis of Lucca, the Cerchi Gianchi of Florence, and the Cerchi Neri. The Bardi and Peruzzi of Florence also appear in this period, laying the foundations of the royal favor which was later to be so disastrous to them.

The two firms which seem to have exercised most influence during the reign of Edward I were the Riccardi and the Frescobaldi, with the latter gradually forging to the fore. They virtually controlled the finances of the realm during this reign. During the period between Sept. 13, 1290, and May 30, 1311, "there was disbursed to them in repayment of loans made by them to Edward I and his son, and as compensation for the losses which they had suffered by the delay in the repayment of Edward I's loans, no less a sum than £110,207 6s. 5½d. Their loans probably amounted to at least £121,941 2s. 11¼d." It was during this period that the king resorted to the device of turning over the revenues to the Italian merchants as security for their loans. In the year 1299 the whole of the revenue of Ireland was turned over to them in payment of a loan of £11,000. And from April 1, 1304, to May 30, 1311, "nearly the whole of the receipts from the customs were handed to them."

King Turned On Bankers

A CONDITION such as this at last grew intolerable, and in 1311 Edward II (1307-1327) turned against them, and the Riccardi and Frescobaldi were driven from the realm after suffering severe persecution. They were never fully requited for the advances they had made to the crown, yet some effort seems to have been made to pay the debts, for down to 1303 four payments were made to Italian bankers to the amount of £7,333 6s. 8d. Edward's motive seems to have been entirely selfish, however, as he was interested in keeping the firms solvent so that they might lend him further sums rather than pay his obligations in full.

The difficulties which have been indicated were sufficient to cause the withdrawal of most of the Italian bankers from the English field, or at least to restrict their activities to private operations apart from the court. Two houses, however, maintained their connections with the crown and were ruined in the end. These were the Florentine firms of the Bardi and Peruzzi. They had appeared in England in the time of Edward I and continued their operations through his reign and into that of his successor. The Bardi were the more important of the two houses, and after 1311 succeeded to the position which had been vacated when the Frescobaldi and Riccardi

were driven out of England. Between 1290 and 1326 they advanced to the kings sums aggregating at least £72,631, of which only £4,926 was lent before 1311. As time went on the advantages of combination became apparent and they began to act in concert with the Peruzzi. This custom began about 1337 and was established by 1340. They stood well in the graces of Edward III (1327-77) during the early years of his reign and were accorded many privileges. The laws of the land were relaxed in their favor on several occasions so that they might be safeguarded in the collection of their debts. An example of this took place in 1327 when "the customers of Southampton were ordered to send to the King at once any money in hand of the customs of wool, hides and wool-fells, and of the new custom, and previous assignments notwithstanding, *'except those to the merchants of the Society of the Bardi of Florence.'*" This action of the king was taken in the face of statutes which limited the residence of foreign merchants in the realm and absolutely forbade the assignment of the customs to their credit.

A War Financed With Wool

THE purposes to which the funds secured from the bankers were assigned were varied. In November, 1331, the Bardi agreed to find 1,000 marks a month for the support of the royal household, to cover which they were granted the receipts of certain customs duties at London, Kingston-upon-Hull, Newcastle-upon-Tyne, Hartlepool and Southampton. Other members of the royal family were supplied by the bankers. The queen, the queen-mother and the Earl of Chester were recipients of advances for which the king acknowledged his indebtedness. The main demands upon them, however, were for carrying on the military operations of the government in France.

The Peruzzi seem to have taken little active interest in financing Edward III before 1336. They made advances in this year which were guaranteed by the income to be derived from certain parliamentary promises to the king. By the end of the first six months of the year it appears that the king was in their debt to the extent of £32,000. In 1337 their dealings took on added importance owing to the increased demand for money growing out of the impending war with France. The only way in which the king could secure an adequate and extended supply of cash was through the manipulation of the wool trade, which was an operation possible only with the consent and cooperation of the Italian merchants who were deeply involved in that branch of business. In March, 1338 the king agreed with the two firms that he would deliver to them all the wool granted to him in England, which they were to sell for his profit.

This situation marks the high-water mark of the fortunes of the Italian bankers in England. Even at this time forces were at work in Italy, in France and in England which conspired together to make their position increasingly untenable. The outbreak of the long war between France and England in 1337 placed the merchants in an embarrassing situation. They could not keep on good terms with both powers. The

formal declaration of war saw the arrest of their representatives in France, a durance from which they escaped only by the payment of huge sums to Philip of Valois. At the same time Edward III began to be more than ever remiss in payment of his old debts, while at the same time incurring new ones. This double trouble was aggravated by the situation in the kingdom of Naples already related. Florentine investments in Naples were endangered. The next development which has also been observed, was a war with Pisa, the financing of which put several of the smaller banking houses out of business (1341) though the more important ones, such as the Bardi and Peruzzi, managed to keep their heads above water.

It is evident in the years after 1343 that the situation of the Bardi and Peruzzi was becoming more precarious in equal ratio to the ever-mounting debts owed them by the English king. Edward III's wars with Scotland and France not only prevented him from making payment on the debts which he had already contracted, but placed him in the position of requiring more and more funds. To this was added a growing resentment on the part of the rising native merchant class at the favors which the foreigners were receiving from the crown. The actual circumstances are uncertain; there is a possibility that there was a merchant conspiracy in which the king was involved. At any rate the deluge overtook the Italians. They seem to have requested an audit of their accounts at some time between 1343 and 1345. The next development found all their agents in prison, without having any specific charges lodged against them except that they were indebted to the king for large amounts, which, however, Edward III acknowledged were much smaller than the sums he owed them. He demanded payment by a fixed date, but later pardoned them. He did not take any measures toward alleviating their distress. It is plainly evident that the imprisonment of the Italians was not based on any misdoings which could not have been condoned, but was rather the result of a wish on the part of London merchants and financiers to get rid of a group which had become obnoxious to them.

A Monumental Crash

THIS episode practically ended the active connection of these two great Florentine firms with the crown, though they continued to trade in England in a private capacity for some time afterward. Some belated payments were made to both the Bardi and the Peruzzi after the crash, and they were enabled to make some recompense to the smaller companies which had been involved by their downfall. The Bardi fared less well in this respect than the Peruzzi, as they appear to have received only £150 in return for an acknowledged debt of £50,493 5s. 2½d. In June of 1346 the Peruzzi received £6,375 and in August of 1352 a further payment of £100. The repudiation of the English debt brought matters to a head and it was found necessary to liquidate the assets of the two firms. A panic resulted in Italy as the result of this famous bankruptcy and a meeting was held

(Continued on page 409)

The Short Straw Man

IT was Lindbergh Day (so runs a story told a while ago) and everyone in the office wanted to get away.

Everyone could not go; someone had to remain, so the men good-humoredly settled the matter by drawing straws.

He who lost ruefully thought of the appointment with his wife and of the possibility of unpleasantness that would flow from his failure to meet her at a certain corner.

Sorry that luck was against him, and doubtful that his explanation would be adequate or satisfying, he bent over his work with just a little resentment against the turn of fate which kept him in. After an hour or two his mood was broken by the entrance of a stranger, inquiring for the general manager.

The man who had drawn the short straw was not the general manager, but by virtue of that short straw he was the acting general manager, ready to serve the stranger in any way.

The man whom fate had thus far kept away from the Lindbergh celebration was in the insurance business, and the caller wanted some insur-

ance. "Some" is used in the popular sense—that is to say the man wanted \$1,000,000 of insurance!

So large a transaction was not closed on the minute but the insurance man, being alone in the office and having a free hand, clinched the sale, and there was in due time entered to his credit a commission

that men in his line only rarely have the opportunity of earning, especially acceptable because the insurance man had traveled up and down the streets many a weary hour trying to sell even \$1000 policies.

One can see Lindbergh almost any day if he has to his credit the commission on a \$1,000,000 transaction, but it is not every day that opportunity walks in without knocking.

DISAPPOINTMENT does not necessarily mean misfortune; for all we know it may be as in the case of the man in the insurance office the harbinger of good fortune, though if one allows the waters to be muddied up by disappointment he may be unable to see the opportunity that is just behind the disappointment and waiting for his hand. When "luck" turns against us optimism helps.



What a pity it is that in this game of life we do not draw short straws more often!

By James E. Clark.

The State Bank Division

A Study of the Diversity of Investments and a Campaign of Education to Interest Bankers In Selling Bonds Direct to Customers Among the Division's Plans. Effort to Reduce Free Service Will Be Pressed. Better Bank Supervision Is Sought.

THE State Bank Division went on record at its Houston convention as favoring a vigorous campaign for the reduction of free service and a general broadening of all banking service to meet changing business and economic conditions. It was decided to make a study of the diversity of investments and conduct an educational campaign to interest bankers in selling bonds direct to their customers instead of allowing bonding houses to do so.

The Division also approved the movement to obtain better bank supervision through the county credit bureau and regional clearing house, in close conjunction with state banking departments, and commended the campaign for a greater uniformity of equitable banking legislation in the various states. One expressed object of the latter effort will be to make the office of bank commissioner "as free from entangling partisan politics as the judiciary itself."

The Division heard addresses by Dan V. Stephens, president of the Fremont State Bank, Fremont, Neb., on "Adjusting Banking to Changing Conditions"; Hugh H. Saxon, vice-president Continental and Commercial Trust & Savings Bank, Chicago, on "The Commercial Banker's Responsibility For His Investment Account"; Walter F. George, United States Senator from Georgia, on "Relation of Government to Business," and O. Howard Wolfe, cashier Philadelphia-Girard National Bank, Philadelphia, on "Archaic Court Decisions Affecting Check Collections." All these will be found elsewhere in this issue.

M. H. Malott, president of Citizens State Bank of Abilene, Kan., was elected president of the Division for the coming year. Other choices of the nominating committee, which were unanimously adopted, were: Vice-president, S. J. High, president of the Peoples Bank and Trust Company, Tupelo, Miss.; Executive Committee, three-year term, Felix M. McWhirter, president of the Peoples State Bank, Indianapolis, and W. A. Hunt, president of the Citizens Bank and Trust Company, Henderson, N. C.; for one-year term, T. O. Hammond, vice-president of the Montana Trust & Savings Bank, Helena, Mont. The nominating committee was composed of

Dan V. Stephens, Chairman; Roy L. Bone and N. S. Calhoun.

Credit Files for Country Banks

THE Public Service Commission reported "splendid headway in the campaign for installation of credit files for country banks

commissioners throughout the country was practically unanimous in approval, pledging cooperation in this movement and assuring us of their appreciation of the helpfulness of the State Bank Division in providing this additional safeguard."

This committee further reported that "A comprehensive study and survey of state and national bank failures was made, tracing the number of failures in each state annually for the years 1920 to 1926, inclusive. The report shows 3124 failures during this seven-year period, of which 2687 were state and private banks, and 437 were national banks. Bank failures during this period increased each year until 1924, when the crest was reached, with 915 failures, and since that date has receded to only 573 in 1926. By far the greater number of failures were in the mid-western and western agricultural states and some of the southern states.

"The survey also showed that the great majority of failures were in the smaller cities and towns, and among banks of \$25,000 capitalization or less. The figures tell their own story. As a companion study a chart of bank charters granted both state and national banks was prepared covering this period, which indicates a stringent tightening up on charter granting. For instance, in 1920 there were 1744 charters granted. The number rapidly decreased each year until only 268 charters were granted during the fiscal year ending June 30, 1927. It is the opinion of the committee that it will be worth while for us to continue the campaign for less free service on the part of banks on the theory that the workman is worthy of his hire; also, to make a study of the advantages of diversity of investments, and to conduct an educational campaign along the line that it is to the

bankers' interest to sell bonds and other securities direct to their customers in preference to allowing bond houses to do so." The members of the committee are: M. Plin Beebe, Chairman; N. S. Calhoun, M. H. Malott, A. L. Schantz, O. B. Taylor.

Legislation in the States

THE State Legislative Committee of the Division reported that it has been con-
(Continued on page 386)



M. H. Malott, President Citizens Bank, Abilene, Kan., Incoming President of the State Bank Division

as recommended by the State Bank Division in line with its adopted slogan: 'A Credit File on Every Borrower with Unsecured Loans of \$500 or More.' The question of maintenance of complete credit files in all banks was taken up with the bank commissioners of the several states and they were requested to incorporate in their requirements a stipulation that a credit file on every unsecured loan of \$500 or over be maintained by all banks. The response from bank

Era of Sounder Banking Near

By G. E. BOWERMAN

Retiring President State Bank Division

The New Order of Things Makes Necessary Fewer, Stronger and More Profitable Banks. Elimination of the Weaker Institutions and the Consolidation of the Stronger Ones Inevitable As the Result of Tendency Toward Centralized Control in All Lines.

I DOUBT very much if anyone without practical experience in that particular field understands or appreciates fully the problems and vicissitudes of the real country banker.

The responsibilities of leadership are either voluntarily assumed, or more often thrust upon him by his fellow citizens who seem to hold him personally accountable for all local progress and development, to encourage and support which he is expected to make all necessary financial advance in some form or other. Then, when he does, what usually happens? When the County Fair or the local hospital blows up leaving nothing tangible but debts, it would surprise the uninitiated to know just how few, if any, of his contemporaries take the slightest interest in the aforesaid tangibles.

Yet he carries on, laboring unceasingly for the welfare of his community, and, many times, financially speaking, without pride of ancestry or hope of posterity.

After, but closely following, the country doctor and the country minister, it is my belief that the majority of country bankers have opportunity to render a greater service to their communities than the representative of any other human endeavor, because there is something more to banking than being a mere money changer in spite of any belief, real or assumed, to the contrary. You are, if you are performing your full duty, acting as guide, philosopher and friend to all of those you come in contact with, especially those who seek your advice.

The Division's Problems

THE American Bankers Association has more than 21,000 members, of which this Division constitutes more than half, having in all 11,108 members, of which 1483 are associate members but entitled to our service. The problems of this Division are those of the great agricultural interests of the country, for the reason that a large majority of our membership consists of country banks, small banks located in the various farming districts, and it is this type and character of bank we are striving hardest to serve.

Covering the period from 1921 to 1926 inclusive, there were 3124 bank failures in the United States; more than a bank failure a day for every day of the entire time, and each one bringing to its particular community hardship and distress. Three thousand one hundred and twenty-four headstones strewn along the pathway of banking these last six years mark the graves of once presumably prosperous institutions, and

each failure lessens in a large degree the public confidence in banking generally.

During this same period, plus the first six months of 1927, there were 5784 bank charters granted. Some of these represent charters issued to banks which reorganized after having closed, but in the main represent new banking institutions. It would be interesting to know if all of them served a public need and were under experienced and capable management. All professions require an examination as to fitness before permission is granted to practice. Why not something of this character for those who aspire to engage in banking? The suggestion is worthy of serious consideration.

Under present methods the country is, or is rapidly becoming, overbanked. We have, or soon will have, too many banks, too few of which are profitable. A survey made by one state, with 845 banks reporting for the year ending June 30, 1926, shows an average net profit per bank of \$1,970. But fortunately these conditions are being corrected.

A New Order Coming

WE may not be willing, at this time, to believe or acknowledge it, but we are approaching a new order of things, the dawning of a new day in banking which contemplates and makes necessary fewer, stronger and more profitable banks. This will not affect banks already in existence where they are properly managed and are adequately serving the public, but it does indicate that fewer bank charters should be granted, unnecessary competition discouraged, the elimination of the weaker institutions, and consolidation of the stronger ones.

What with the airplane, automobile, radio, telephone, rural mail and good roads, a change in customs, habits and methods is taking place, of which we are as yet hardly conscious, but the changing condition of business life especially is very definite and very real in the constancy of its approach. As applied to the business of the smaller towns, the change will be revolutionary. The tendency of the times is toward centralized control and distribution. This is evidenced in nearly every line of commercial undertaking. Chain stores of every description dot the landscape, and with their enormous buying power are rapidly putting the small merchant out of business or making it increasingly more difficult for him to continue. The automobile has reduced the day's journey of yesterday to one of an hour today. It is a singular characteristic or attribute of human nature to enjoy transacting business in

the larger centers. It's a holiday for the women, an adventure for the children, and an imaginary necessity for the sterner sex. Why should rural banking be exempt from this new and constantly growing influence?

Branch banking and chain banking as important, if not at this time dominating, factors have taken their place in the scheme of things financial in this country, and are here to stay. Just how far reaching the movement may be only the future will reveal. It seems, considering the present movement toward centralized control, and speaking of the future rather than the present, that if unit banks are continued indefinitely and individual banking is to be perpetuated in this country, there must be some change in present methods. Banking, after all, is an individual matter, and our destiny is largely within our own keeping.

Legislation may at times be helpful, but above and beyond all is the character of the man at the helm. What is needed is that the governing and directing genius of the organization be a man for whom no legislation is needed, or supervision necessary—a man who is a banker in all that it signifies, well balanced, careful, with the courage to say no, and the full realization of the responsibilities of the trust which he administers.

Facts Must Be Faced

BANKING, in its final analysis, is nothing more nor less than a trusteeship. And so, unless we are to finally drift toward the European system of banking which has already gained such a foothold in this country, it behooves everyone interested to recognize the new conditions which exist, to understand and appreciate that there should be more bankers in the banking business, that there should be fewer and stronger banks, that the general adoption of better banking methods is imperative, that greater care should be exercised in investigating the qualification and fitness of those applying for bank charters, that there should be the establishment of non-political banking boards in every state, and sufficient compensation, and longer terms in office, for bank superintendents, in order that men of the highest integrity and ability, men with experience and understanding may be secured for, or maintained in, such positions.

Successful banking, in all its different phases, is predicated upon, and the result of, public confidence. In view of the comparatively recent banking debacle there is primarily but one problem to solve, and that is

(Continued on page 378)

Adjusting Banking to Changing Conditions

By DAN V. STEPHENS

President, Fremont State Bank, Fremont, Nebr.

A new Country Clearing House and Examiner System Which Is Being Tried Out in Nebraska is Believed to Offer a Real Remedy for Conditions that Have Caused More than 4000 Bank Failures in Seven Years. Plan Is Feasible in Any Section.

WHenever a financial disturbance occurs the attention of the people is directed to any weakness that may exist in our banking system.

For half a century or more students of banking have understood the necessity for the mobilization of reserves for use in times of depression or financial disturbances in order that business may continue as usual. The panic of 1907 was directly the cause of the creation of the Federal Reserve System. The deflation, resulting from the World War, has demonstrated another weakness in our banking system. This weakness has been apparent to students of banking everywhere for many years. Evidence on every hand proves beyond a question of doubt, that our financial ills are due to the ineffective banking departments of the states and nation. The banks of the country are creatures of the state and nation and they exist and function through charters issued by banking departments and these departments have power of life and death over them.

Throughout the United States since deflation began seven years ago there have been more than four thousand bank failures, which have tied up a total of over one billion dollars in deposits, 50 per cent to 75 per cent of which will be a total loss to the depositors. In addition to this staggering loss other billions have gone into hiding through the withdrawal of deposits by timid people who lost confidence in our banking institutions.

Bankers Not Responsible

THE authority for creating banks is vested by legislative bodies in the state and nation. The bankers have nothing whatever to do with the issuance of bank charters. They are not responsible for the failures of the last seven years.

The business of the country is now being conducted by approximately four thousand less banks than existed seven years ago. The business no doubt could be conducted in a perfectly satisfactory manner if we lost four thousand more banks, if these losses could be taken without dealing to the remaining banks and the country a staggering blow.

The first and primary cause of bank failures is the excessive number of banks created by the various state banking depart-

ments and the Comptroller of the Currency.

The second cause is attributable to the inefficiency of bank supervision by the banking departments. This is not a criticism of the officials now conducting the various banking departments of the country, nor of the Comptroller of the Currency, but it is a criticism of the system which they employ and which has been employed for many years in the conduct of their business.

So we have in these two causes an explanation of the widespread disaster that has come to various communities of this country during the last seven years of deflation through bank failures. Remove these two causes: first, by limiting the number of banks to the needs of the country and, second, by adequately supervising those that are created and bank failures will disappear.

A Remedy Proposed

THERE can be no other causes for this condition excepting those enumerated. Deflation, untoward circumstances that have arisen, local conditions that may exist, all of course contribute to an aggravation of the situation that was originally produced by one of the two above causes, viz., too many banks or too poor supervision.

The remedy lies first in the mere voluntary act of the various banking departments in restricting charters to actual needs and the fact, that banking departments have never been able to do this thing regardless of the power they possess, is proof of the need of legislation that will take the granting of charters out of the control of political appointees.

It is impossible for a continuous business-like administration of the banking department so long as that department is in the control of a political appointee of the Governor or the President. Additional machinery is necessary. The creation of an entirely separate banking board with a continuous existence independent of the Governor or President, with power to grant charters for banks, would cure to a very large extent this situation from which we now suffer. An independent banking board for each state, made up in the manner the Federal Reserve Board is constituted, would guarantee to the banking business of the country an intelligent consideration of the subject of granting charters.

In my own state of Nebraska we have at

the present moment something like 800 state banks. We should have possibly not to exceed 400. We have lost approximately 200 in the last seven years, which made our grand total just a little less than 1000 banks when deflation began its deadly work. This excessive number of banks—one to every 1250 inhabitants—has been the main factor in producing failures.

One little town of Dix, Neb., with 200 population, at one time had four banks. It now has none and probably does not require any. The stupidity of a banking department in granting charters in such reckless fashion is apparent and it is also proof conclusive that a political banking department cannot be entrusted with this power.

There are hundreds of towns throughout the middle west with less than a hundred population that have banks and these banks are so small that, if they render any service at all excepting to furnish change for the people, their very existence is in danger, and certainly such banks cannot stand through a period of depression and thousands of them did fail.

The national system of granting charters and supervising banks is no doubt on a much firmer and stronger footing than are those of the various states but even the national system is subject to very grave criticism not only in regard to the granting of charters but in regard to their method of supervision.

The majority of failures, however, that have come to the country are confined largely to the middle west and the south. This territory covers a vast area of the United States and the losses, that have arisen out of these failures, have never been totaled and never will be, but it is safe to say that the losses have been staggering and paralyzing in their effect, and in my judgment, these losses have been wholly and entirely unnecessary and could have easily been remedied.

Supervision Ineffective Now

THE supervision of banks as they exist today is ineffective as shown by the results obtained. Contrast the position of the examiner under a clearing house association with that of an examiner from the comptroller's office or the office of the state banking department. Such official examiners are capable (just as capable, no doubt, as the clearing house examiner), but they are not

permanently assigned to a location and charged with responsibility of maintaining or improving the status quo of the banks of that locality. They are not made responsible to a local organization that is deeply interested in the welfare of every bank within the organization. They report to their respective superiors the result of their examinations and move on to other places. Their superiors at their respective banking departments attempt to enforce the findings of these itinerant examiners at long range and with varying results.

The examiners' reports are usually made up after they leave the banks they examine and the bankers generally do not know the sort of report the examiner is going to make until he receives a copy of it later on from the banking department. The result of this practice has encouraged the examiner to avoid a controversy with the executive of the bank and his board of directors by keeping from them, until he has gone, the result of his findings.

When a copy of the report is finally received by the bank, if it is exacting and not in harmony with the views of the bank officials, they immediately appeal to the banking department over the examiner's head and, as a rule, they either modify the findings of the examiner or succeed in going ahead in their usual way.

Some Improvement Made

THE Comptroller of the Currency has now reversed his former position on this subject and is exacting from the examiners the practice of laying before the boards of directors and the managers of the banks their reports before they are mailed to the comptroller. This gives the boards of directors and the examiners a chance to fight out the controversy face to face and agree upon some plan and avoids the haphazard method to some extent of attempting to regulate banks, through the findings of an examiner, by a total stranger to the locality, hundreds of miles away.

But, taking it all in all, the entire system of both Federal and state examinations has been exceedingly ineffective. Failure and corresponding losses have resulted on a vast scale throughout the entire country but principally in the middle west where small state banks have been chartered at most every crossroad, until competition has become destructive.

The remedy is clear and it is within reach without the necessity of additional legislation and without the consent of anyone. All we have to do is to readjust our viewpoint; change the method of approach by adapting the banking departments of the various states and the Comptroller of the Currency, to the credit clearing house examiner idea. This idea cannot be brought about through voluntary associations but the banking departments of state and nation can bring it about by the simple act of permanently locating examiners in banking districts around commercial centers and making them responsible for the banks within such districts.

The permanency of the examiner's position and his assumption of responsibility for his acts are the two vital factors in the success of this plan. This, of course, does not in any way release the banking department of responsibility, but it does make the

examiners accountable for their acts to the department, and the moral force of the clearing house is ever present.

Every district surrounding a commercial center should organize a clearing house association, not for the purpose of clearing checks, but for the clearing of educational ideas on better banking practices and for the purpose of furnishing organized bodies for advisory purposes. It will enable the official examiner to have an executive committee, created by this clearing house association, to which he can appeal for support in solving some difficult problem of local interest. This committee would afford an excellent buffer for the banking department when local controversies arise that can best be solved through the joint action of the members of such a committee.

The results of such a plan of procedure will be that the viewpoint of the examiner under such a system will be entirely changed. Responsibility and the permanent character of his employment at a better salary will cause him to act with greater care and greater efficiency. There will be no opportunity to hide behind his superiors. He will be compelled to defend his actions at every turn of the road and watch the results of the enforcement of his recommendations. He will now be as keen to make the bank a safe institution as the manager of the bank. He will attempt to enforce sound banking practices and will aid in securing the paper and maintaining the bank in a solvent condition so that it will be able to weather any kind of a storm. He does this because he cannot run away from his responsibility. He cannot permit a bank to get in a bad condition without ruining his own reputation as an examiner. He can no longer say: "I told the department that Blank's bank was in a bad way and they paid no attention to me. If the department had followed my advice it would not have happened, etc." He cannot say that under the new order of things because he is on the job and he is in full control and responsible to the Banking Department, as well as to the Clearinghouse Association. He cannot "pass the buck" to anyone. He cannot afford to do anything but his level best for the reason that the clearing house is always back of him and ready to add to his salary and make his position worth while if he is able to keep the slate clean. He has every incentive to become a great examiner and to make his district a great banking center of solvency and public confidence.

A New Responsibility

INSTEAD of being merely an irresponsible critic making reports to his department and moving on, like the old time "boarding around" school teacher, without a worry about the bank he examines, he becomes a co-partner in effect with the bankers of his district and with full power to act. The fact that he is permanently located in the district with the possibility of being adequately paid gives him the ambition to become fully and thoroughly acquainted with the borrowers of the district and with their signatures. In other words, he becomes a thorough credit man for the banks of the district.

Lastly, but not of the least importance,

is the ease with which a credit bureau is established automatically and legally by this official examiner. For many years the greatest effort possible has been made in various localities to establish credit bureaus. They are invariably voluntary associations and are only beneficial to those who join them, and their efficiency is often reduced by the fact that there are always some banks that will not join them. This is all done away with under the new plan because the examiner becomes automatically his own credit bureau. He can card-index the borrowers of the district and furnish information, to the banks that are entitled to have it, of all duplicate borrowers through a perfectly ordered credit bureau.

He is required by law to preserve inviolate the privacy of the reports he makes. These he can guard and protect, but there is a latitude for his operation in this respect that will enable him to furnish facts about duplicate borrowers that will conserve the interest of banks and without in the least violating the spirit or letter of the law. He can do this without anyone's consent and such a credit bureau includes every bank within his district which he is lawfully called upon to examine.

Other Steps To Be Taken

THERE are other steps, of course, that the examiner should take, but these are outside of the province of the clearing house association as the examiner is a legally-constituted official and his acts are wholly subject to the direction of the banking department, but with a thorough understanding with the banking department that it is co-operating with the association in carrying out this idea of clearing house examinations, there need be no difficulty experienced by virtue of what might appear to be two sources of authority. There can be no conflict as the clearing house association is without legal status, but the moral force of the association can be effective and constructive in character. Even a conflict of opinion over some moot question has its advantages because, out of the debate, a solution of the problem in question may be obtained.

The examiner, of course, would no doubt be influenced by the program that the association conceives to be effective and practical and which, no doubt, would harmonize with the best ideas of procedure on this subject.

Under this system the examiner should forget his old practice of merely grinding out so many examinations a day, at so much per, in the manner of a space-writer in a newspaper. There are higher objectives to be obtained than merely examining banks. It is very much more important to keep them solvent. The mere examination of a bank does not improve conditions in the least. It is the constructive work on the note case, coupled with sound banking practices, that are worth while. The examiner can keep banks solvent if he is capable and efficient.

Therefore, we conceive it to be the duty of the examiner upon entering on this program to forget his old methods of procedure and take the reports, that have already been made upon the banks included in his district and classify them. By the procedure

(Continued on page 423)

Legislation on the Collection of Checks Imperative

By O. HOWARD WOLFE

Cashier, Philadelphia-Girard National Bank, Philadelphia, Pa.

Archaic Court Decisions Have Brought About a Situation That Works a Hardship Upon Banks and is Contrary to Sound Banking Practice and Economic Law. Disclaimer Method of Avoiding Risks is Inadequate and Does Not Get to Root of the Trouble.

A DELEGATE from one of the southern states to the Democratic Convention held in New York City in 1924, issued checks on his own bank in payment of his hotel bill in the total amount of about \$500. These checks were accepted by the hotel, presumably on the theory that the convention would make good its guarantee of all such checks issued by the delegates, who, owing to the unforeseen time of their stay in New York, were compelled to use checks after their cash had run out.

In any event, the hotel accepted the items, which were deposited in a bank in New York City. In the regular course of business, the checks were sent to a correspondent bank in Philadelphia, and by the Philadelphia institution sent directly to the drawee bank in the southern state under the usual disclaimer. Remittances were never received, nor was any satisfactory reply made to repeated demands that the checks be covered. The delegate, who incidentally was an officer of the bank upon which the checks were drawn, returned to his home town, and it is presumed tore the checks up. Shortly thereafter, the bank failed.

The Philadelphia bank, acting upon its disclaimer, charged back the items to the New York bank which in turn charged the account of the hotel. Having the right under present court law to choose which bank it would endeavor to unload a bad debt upon, the hotel sued the Philadelphia bank, since under Pennsylvania Court decisions it is still ruled to be negligent to send checks direct to the bank upon which drawn, even if the drawee bank is the only bank in its town.

Bank Pays the Hotel Bill

THE case was won by the hotel and, the amount involved being too small to appeal to a superior court, the net result is that the Philadelphia bank enjoys the distinction and honor of having paid the hotel bill of a delegate in attendance at the New York convention.

The facts are that the hotel accepted checks from a guest who, if there is any logic in court rulings, should have paid cash. In the regular course of business the checks were sent by the Philadelphia bank to the bank on which they were drawn, partly to save delay, but chiefly because there was no other practical thing to do. In what better position would the hotel have been if the

checks had been returned through banking channels with this perfectly honest statement: "We cannot collect unless we send the items direct to the bank on which drawn, nor can we in any event guarantee the drawee bank will assent to our request that they remit cash."

No doubt this is what the Philadelphia bank might have done, but that is beside the real question, which is: should the bank be legally penalized for taking the only possible course to collect, if collection were possible, a debt proved to have been bad even at the time the hotel permitted its customer to incur it? Unjust and inequitable as such a decision seems to be, it is typical of hundreds, if not thousands, of other similar cases with which every bank handling out-of-town items for its depositors and correspondents is familiar.

Two Methods of Treatment

IN discussing the need for adequate legislation to protect banks in the collection of out-of-town items, it must be remembered that we are dealing only with such questions as arise from bank failure. In other words, unless a failure is involved, all such discussion as to negligence, responsibilities, and obligations are purely academic. Lacking definite laws on the subject, the courts have always decided these questions on common law, and the law governing the relationship between principal and agent producing a situation analogous to decisions based on the law merchant before the adoption of the Uniform Negotiable Instruments Act.

There are two methods which suggest themselves as to the proper treatment of the problem. Should the remedy be along the lines of specific legislation adopted by the various states, as was the case with the Uniform Negotiable Instruments Act, or should an effort be made to prove that banking custom is such that the present common law is inadequate, inequitable, and archaic? This latter solution would be possible, however, only through a test case, upon which the Supreme Court of the United States would ultimately decide, and since a failed bank must always be involved in such test case, it is impractical, if not impossible, to bring into the situation by prearrangement all of the elements which might insure a clear-cut decision entirely applicable to all cases.

Although, as has been stated, there are hundreds of cases to which reference might

be made, they are all summed up in the now famous Malloy Case, decided by the Supreme Court on February 18, 1924. For our purpose it will be sufficient to use this case as a sort of text upon which to base argument and draw conclusions.

This famous decision was the result of a question which arose between the Federal Reserve Bank of Richmond and Malloy Brothers, plaintiffs, who sued the Federal Reserve Bank of Richmond to recover \$9,000, the amount of a check drawn to their order on a state bank in North Carolina. The check took the usual course, and was remitted for by the drawee bank with a draft on another North Carolina institution. Before this draft could be collected, however, the drawee bank failed. The Supreme Court, although admitting the right to send the item directly to the drawee bank, held that the Federal Reserve Bank of Richmond should have accepted nothing but cash in payment, and its failure to accept anything but cash made it liable to the plaintiff, who recovered in full.

There is nothing in the conditions surrounding this transaction differing essentially from other cases which have been similarly decided. In the opinion handed down, however, the Supreme Court has made certain statements which apparently have been accepted by bankers and courts without question, although these statements can be easily shown to be not in accordance with banking practice.

Court Admits Confusion

IT is significant to note that the court frankly admits a confusion in state decisions with respect to similar cases. For example, quoting the opinion of the Court in the Malloy Case: "The state decisions in respect of the liability of a correspondent bank to the owner of a check forwarded for collection by the initial bank of deposit are in conflict beyond the possibility of reconciliation." Again, "The special situation with which we are dealing is controlled by a definite rule of law, which it is sought to upset by a custom to the contrary effect. It is not now necessary to consider the effect of a custom which contravenes a settled rule of law or the limits within which such a custom can be upheld. Decisions upon that question are in great confusion."

The language immediately following the foregoing brings us point-blank to the doubt

previously expressed as to the facts upon which the Supreme Court based its decision. To the quoted language immediately preceding the Court adds: "But whatever may be the doctrine in other respects, certainly a custom relied upon to take place of a settled principle of law, and therefore to have the force of law, ought to be as definite and specific in negating the principle as the law which it assumes to supplant is in affirming it."

One would gather from this language that the Supreme Court not only reverses itself with respect to the clarity of the law as expressed in state decisions, but also seems to be of the opinion that there is no definite well-established custom covering the collection of out-of-town checks. If we examine the opinion in our effort to understand in what respects the Supreme Court seems to doubt the existence of a clearly established custom, we find the following quotation from the testimony:

"When checks are sent with the expectation that the bank receiving them will remit at once, we call it sending for collection and return. When this is done, the bank upon which the checks are drawn is expected to cancel the checks and charge them to the accounts of the drawers and to remit by means of its exchange draft or by a shipment of currency. An exchange draft is used more frequently than a shipment of currency."

Court Falls Into Error

THE court, however, falls into what we perhaps should consider a very natural error when it concludes: "It thus appears that the custom, if otherwise established, does not fix a definite and uniform method of remittance." What the Federal Reserve Bank was referring to in its statement was, of course, the custom generally adopted by Federal Reserve Banks (and by them alone) to accept cash in remittance of checks sent to country correspondents, such cash to be sent to the Federal Reserve Bank at its expense, as a concession to member banks which protested they could not create sufficient exchange to pay by draft without exacting an exchange charge. In this practice of accepting cash (admittedly not by preference) the Federal Reserve Banks had no thought of avoiding risks, but rather to assume the cost of remittance which otherwise would have fallen upon the country banks.

The simple facts are that no bank, within our knowledge, ever sends out by mail a check for collection with the request that it be remitted for in cash, nor does any country bank, with the exception noted, so remit. Since the Malloy Case, we have been curious to find whether any banker, city or country, knows of any such request that has been made and acted upon. We have never learned of a single case, and it is therefore safe to assume that the Supreme Court is without any evidence whatever that such is the custom among banks.

A glaring error, however, in the Supreme Court decision lies in that it ignores the fact that there is no possible legal way to compel a country bank to remit cash (or anything else for that matter) even when requested to do so. All large city banks are familiar with the so-called "black list." Upon this list are

the names of several score of banks which refuse to remit at all, by cash or otherwise, and if there is any way they can be legally compelled to do so, I am not aware of it.

Among such banks the custom is, upon receipt of a check drawn upon them from a city bank asking for remittance, simply to credit the amount to the city bank and to remit at their good pleasure. We have known of many cases in which the city bank was compelled to send a representative to a distant point and demand payment of an amount owing for checks. We know of one such representative who was given a great pile of unwrapped silver, which put him to considerable trouble to get it back to his bank. When we consider that we are speaking only of banks that fail or are about to fail, the proposition of expecting them to remit cash on demand becomes absurd.

The Supreme Court also states that the plaintiffs in the case under consideration had no knowledge of banking custom in such matters, presumably entertaining the naive belief that banks usually insisted upon cash payment. While this may be a perfectly safe and sound legal presumption, and was undoubtedly the proper position for the plaintiff's attorney to take, it is very difficult to believe that any bank depositor entertains any such belief. If a business man is so ignorant of business or banking customs as to think that all checks which he draws on his bank are paid for in cash, should he not suffer the penalty of his ignorance of business custom as he would should he violate statute law through ignorance?

Neither the Supreme Court of the United States nor any other Superior Court has ever apparently given consideration to the fact that the payee of a check has himself, and without any question, taken the first step in assuming the risk when he accepts from his debtor a check instead of cash. It is common law that a check is only a conditional payment. When the creditor accepts a check, he has taken a conditional payment. Rarely if ever does he insist upon actual cash from an out-of-town debtor. Having accepted a check, he can either attempt to collect it himself, or give it to his bank to collect for him. In making such collection the bank enjoys no privileges or rights at law which he, the payee, does not enjoy. It does not seem logical, therefore, that he should seek to hold the bank for doing not only what he has already done in principle, but what he would also do if he himself should undertake to make collection by sending the check through the mails to the bank on which it is drawn, asking them in turn to remit to him in payment.

Four Parties Affected

WHEN referring to the payee of a check we are reminded of the fact that he is only one of four parties interested in remedial legislation. These four are the maker of a check, the drawee bank, the payee, and the bank or banks which endeavor to make collection for account of the payee. The present court-enacted common law protects only one of these four parties, namely, the drawer of the check. If his bank should fail before the checks he has drawn upon it are fully remitted for, he is protected to the extent that he has succeeded in recovering from his bank one hundred cents on the

dollar of that part of his deposit represented by the checks he has used in paying his out-of-town debts. The payee is then in the position of taking his place with other creditors of the failed institution, and he must accept whatever dividends the receiver is ultimately able to disburse; that is, always providing the lawyer of the payee is unable to find a loophole in a bank disclaimer, or to convince the Court, as it seems sometimes easy to do, that the payee's bank has been guilty of apparent negligence somewhere along the line.

Even the drawee bank is not protected under the present law. To illustrate this, we may quote the language of the Supreme Court in another case, decided a year previous to the Malloy case. This decision was rendered when a test was being made of the constitutionality of the North Carolina law which permits banks to remit in exchange rather than in cash. Said the Supreme Court in that case: "The practice (of presenting checks at the counters of drawee banks for payment in cash) would, if pursued, necessarily subject country banks to serious loss of income. . . . It would reduce their income producing assets by compelling them to keep in their vaults in cash a much larger part of their resources than theretofore. That such loss must result was admitted. That it might render the banks insolvent was clear." Further, in the same opinion: "The only purpose of the statute was to relieve state banks from the pressure which, by reason of the common-law requirement, Federal Reserve Banks were in position to exert." Note the use of the word "pressure."

Does it not seem odd, if not illogical, that the same tribunal of justice would in this language in one case make it appear that they are of the opinion that the Court-imposed common law works a hardship upon banks, and a year later in another opinion apparently ignore the fact which sound banking practice and economic law readily recognize?

Courts' Attitude Changing

A LAYMAN unlearned in the ponderous and slow-moving processes by which the legal body finally is persuaded to accept practical business and economic facts might ask what further evidence is needed other than has been presented in hundreds of cases in the past twenty-five years or more to prove that custom, practice, equity, justice, and economic necessity demand a change of attitude upon the part of our superior courts. Happily we are not without evidence that this change is taking place. For instance, we may refer to an opinion rendered by Justice Stone of the Supreme Court of Minnesota, who in a recent case had this to say of the Malloy decision:

"I concur in the result, but only in deference to the opinion of the Supreme Court of the United States as expressed in the Malloy Case. The major premise of that opinion, that a check, draft, or note is payable only in money, is true technically but untrue practically. It is true only to the extent that the holder may demand money if he chooses and is entitled to it if he demands it. Under modern banking practice, it seems to me that the proposition has become untrue in every case where the instrument is deposited

(Continued on page 417)

The Relation of Government To Business

By WALTER F. GEORGE
United States Senator from Georgia

**Legislation Should Be Turned Back Toward the Constitution.
We Are Resorting to the Stupid Policy of Changing Our Theory
of Government as Conditions Change. Power to Tax is Nearest
Approach to Absolute Political Power Under the Constitution.**

MONARCHY limited or absolute is based upon the theory that common men are incapable of self-government and must therefore be regulated in their conduct and business by those in authority. The theory demands a concentration of power in one man or a group of men, and every attempt to concentrate power unduly is a step in the direction of monarchy. The multiplication of governmental boards and bureaus separates the individual from his government and limits the power of the individual to obtain redress. Monarchy is paternalism.

Democracy is the antithesis of monarchy. It asserts the right and capacity of common men to govern themselves. Liberty is inherent in the individual. It is the indefeasible right of the individual as a responsible moral being. Our Constitution is an obvious effort not to create but to safeguard the liberty of the individual. On its restrictive side its main purpose is to preserve those immemorial rights of free men held sacred as against all government, local as well as general. The right of the majority is, of course, recognized, but the doctrine that a majority may in all circumstances work its will, that whatever the majority at the moment wills to do is necessarily wise and right, has no place in our system of government.

Good Business Depends Upon Good Government

DURING the World War government entered into the closest cooperation with business and of necessity regulated and controlled trade and commerce to an extent never theretofore attempted. During the emergency the abnormal demand for goods and the fact that basic raw materials were limited and unevenly distributed among the nations necessarily pressed government into new lines of activity. One result has been the growing disposition to set up trade barriers and to assert the power to regulate, suppress or prohibit commerce. The belief has also grown that self-government was well enough for early Americans, but it will not do today. In lieu of adjusting conditions to our theory we are resorting to the stupid policy of changing our theory of government as conditions change. Good business depends upon good government. Stability in government is the first condition of good business. Laws framed to meet the exigencies of every

changing condition lead inevitably to political chaos.

In the creation of statutory boards and bureaus the main purpose undoubtedly has been not to hinder trade but to facilitate commerce and promote industry. The natural disposition to grasp power and to extend authority has led and will lead to mischievous and harmful interference in the management of private business. Legislation of this day should be turned back toward the Constitution and the Bill of Rights. Self-government means the freedom of the individual to direct his life in his own way, with the least possible interference from any source, general or local. It means the maximum of liberty and the minimum of restraint.

Government in America is not reduced to the status of the policeman on his beat. We have not set up the night-watchman theory of government. There must be laws and law making. But there must also be a limitation upon law making. The limitation upon government is that it may not control the individual in his business or conduct except in the interest of the general welfare. The individual may carry on his business and conduct his affairs without let or hindrance and free from the tyranny of petty officialdom, so long as he does not encroach upon the right of his neighbor and does not jeopardize the interest of society. Those who make and those who administer laws need to be constantly reminded that the best governed people are the least governed people.

Government is free to prohibit corrupt business practices and to prevent agreements in restraint of trade. The basic principle of self-government places upon government the imperative duty to stay corruption and oppression in business and to break down every restraint in the interest of special classes, to the end that the paths of opportunity may be kept open. Authority exists to regulate and control every business affected with a public interest. But every grant of power and every rightful reservation of power is modified by the implied inhibition against the unnecessary and, therefore, oppressive use of power.

Nearest Approach to Absolute Power

THE power to tax, as to the amount of the tax, is, perhaps, the nearest approach to absolute political power under our Consti-

tution. Taxes and government have been almost synonymous terms from the beginning. We have no record of government where tribute was not exacted from the governed. Every wise ruler has known that the power to tax involved the power to destroy the productive capacity of his people. While the government is not limited as to the amount of the tax, the government is limited in its purposes, and it may exercise only those general powers expressly granted to it or necessarily implied from the powers thus granted. It must be a sound doctrine that government may impose taxes for a public purpose only, as distinguished from a private purpose, and the amount of the tax which the government may levy and collect is limited by the necessities of government economically administered, confined to its proper channels. To employ the power to tax for any other purpose is a perversion of government and a denial of the basic principle upon which our system is founded.

Taxes are paid from the accumulated wealth of the people. Wealth cannot be made out of nothing. It must be created by labor. Wealth is the conserved labor of yesterday. So that in the end extraordinary taxes must be paid by the men and women who toil or there must be a diminution of the accumulated wealth and a slowing down of the business of the country.

Taxes Should Be Cut

WE must consider whether our present federal tax levy is within its principles I have suggested. It is certain that we have a surplus in the Federal treasury. An occasional surplus may not be avoided, but the tax levy has resulted in the accumulation of a surplus in more than one year. While government should live within its income and should seek to avoid a deficit or debt, the government does not stand in this regard upon the same footing as the individual. The potential asset of the government is the entire wealth of the people of the country with power to take that wealth through taxation.

The reduction of the national debt, of course, accords with common sense and sound policy. As a result of the war the government expended the enormous total of some \$40,000,000,000. Approximately \$22,000,000,000 of this total have been paid. Much of it was paid in direct taxes. Our bonded in-

(Continued on page 409)

New Responsibilities Face the Commercial Banker

By HUGH H. SAXON

Vice-President, Continental & Commercial Trust and Savings Bank, Chicago

Commercial Banking Today Calls for the Application of New Investment Principles, the Buying of Securities That Are Liquid as Well as Sound and in the Purchase of Which the Depositor is Safeguarded. Lure of Quick Profits Must Be Ignored.

THE commercial banker's first responsibility is not to make profits. It's to safeguard his depositors.

When commercial banking was strictly commercial banking, that is, when loans were all short time loans, sixty to ninety days or less, it was comparatively easy to safeguard depositors, if one had the necessary credit experience to determine the quality of the commercial credit risk. Of course, there were plenty of men in the banking business who did not have such training and experience, and this fact in part explains why there were so many bank failures. There were other reasons, but this was part of the story.

But today commercial banking is not merely commercial banking. Commercial bankers to an increasing degree have bought long time investment securities for the investment of their funds. Thus, on June 30, 1922, 18,232 state commercial banks held investment securities amounting to \$2,289,487,000, including governments, while four years later, June 30, 1926, 16,493 state commercial banks held investments totaling \$3,192,850,000, including governments. So, under these changed conditions, we have commercial banking with a dash of investment banking.

A number of people have recently been alarmed over the increase in collateral loans and investment holdings by commercial banks. I do not share the feeling of alarm that has been expressed. But I do feel that commercial bankers must put themselves in a position to appraise investment securities as part of their earning assets and as part of their secondary reserve.

The Old Order Changed

THE old order of commercial banking has changed, at least for a time. The new order means new problems to study, but the old responsibility continues—the responsibility of safeguarding our depositors. We simply have to face this age-old responsibility with the application of new investment principles.

Roughly speaking, investment securities go up in price when money rates go down, and vice versa. This has always been true and is likely to be throughout the rest of our lifetime. When money is easy and security prices are rising, there is always the temptation to speculate with bank funds—that is, buy investment securities with an idea of

making a profit. The only trouble with such procedure is that most of us are not able to foretell exactly what is going to happen to the money market, and none of us has the right to speculate with depositors' money if we are going to adhere to the cardinal principle of commercial banking—safety first for depositors.

So far as I know, there is no mechanical forecaster that will tell us when to buy investment securities and when not to buy them, or when to sell them. One of my economist friends tells me that there never has been a decline in the securities market when prime commercial paper rates have not stood above $4\frac{1}{2}$ per cent for more than a seasonal period. But as for blast furnace tests or any one of the thousand and one mechanical forecasters, I take no stock in them, and maintain the old, conservative position that when a banker is buying investment securities he should buy them as investments and not for a quick profit.

Shopping for Securities

WHILE it is true that investment security prices move inversely with money rates, and that when investment securities are rising all investment securities tend to follow the procession, still it is also true that some investment securities move more rapidly than others, and they do not all move at the same time. Some even break loose and run in the opposite direction from the course of the big parade. So, as a commercial banker looking into the matter of investment securities, I find it necessary to ask and get answers to certain questions just as if I were the ordinary bond buyer: What is the capital structure of the borrower? What is the earning record of the company over a period of years? What is the quality of the management of the concern? What are the conditions in the particular line of business, if the security is an industrial one? What have been the conditions in the past and what are the future prospects of the industry? These questions, at least, must be answered to my satisfaction before I feel that I can invest some of our depositors' money in the particular security.

Frankly, I do not believe that most commercial bankers are equipped to answer these questions on their own. I know I am not. And I feel sure that the best way is the normal way, namely, to establish investment banking relations with a high-grade, or sev-

eral high-grade, security houses which can provide us with detailed analyses. Then we must use our own best judgment. Few men have the power to judge 100 per cent accurately all of the time, and I know of no cut-and-dried rule to follow. It is no professional secret that every banker at some time in his career has rejected loans that later turned out to be perfectly good, and conversely, has made loans which he felt at the time of making were sound, but which later turned out to be sour. But the prize comes to him who makes few losses, and we cannot yield to the lure of high interest rates without facing a hazard. The temptation for profits is great, but we must remember—safety first for depositors.

Of course, the nub of the whole matter of safeguarding depositors is the age-old question of liquidity. It is our first job as commercial bankers to keep our assets sufficiently liquid. The question of marketability also enters here, but the bond that is marketable today may not be marketable six months from now.

We know about our primary reserves and the regular requirements regarding these, but when it comes to secondary reserves we have the nice problem of not only getting the right kind of securities but also getting them with the right maturity dates.

We know that we are going to have seasonal requirements, and we therefore buy short time bonds or commercial paper to meet these requirements. But even in the case of our long time security holdings it is desirable for us to have maturities arranged so that year in and year out the securities that we buy in the expectation of holding to maturity will give us an inflow of funds regularly and at desirable intervals.

In other words, it would not do to load up with everything maturing in, say, 1940 or 1945, because we cannot foresee what conditions will be in that particular year. We should have our maturities spreading over a period of years.

Building Up An Account

A PROPER investment account for commercial banks cannot any more be built up in a year than can an acorn grow into an oak in that period. I would not attempt to lay down a formula or strict rule or even to suggest how much of certain classes of securities should be held in your portfolio,

(Continued on page 404)

The National Bank Division

Annual Meeting Saddened by the Death of the President of the Division. Address in Which He Predicted a Prosperous Era for National Banks as the Result of the Enactment of the McFadden-Pepper Bill Is Read. E. A. Onthank Heads Division.

THE session of the National Bank Division at the Houston convention was saddened by the announcement by Vice-President E. A. Onthank of the death of the President, Charles W. Carey of Wichita, Kan. The members of the Division stood one minute in silent tribute to Mr. Carey, and Mr. Onthank then read the address which had been prepared by Mr. Carey, as retiring President, for delivery before the Division. It was as follows:

"The year 1927—now drawing to a close—marks an epoch in the history of the National Banking System. Without disturbing the tried and sound fundamental principles laid down for its guidance more than sixty years ago, new life was injected into it by the enactment of the McFadden-Pepper Bank Law. This achievement, after several years of effort, is a source of great satisfaction. Thus made more effective, and with its field of activity measurably broadened, the National Banking System, supported by the Federal Reserve System, is acknowledged today by leading financiers of the world as the peer of all financial systems.

"It is proper that acknowledgment be made to those who assisted in the work incident to the modernization of this law. First must come Honorable L. T. McFadden, to whose untiring zeal the major credit must be given for what has been accomplished. A just tribute and a highly proper one at this time is to acknowledge the obligation of this Division to him. Grateful acknowledgment must be made also for the assistance rendered by the Treasury Department of the United States, and particularly the Comptroller of the Currency, Mr. McIntosh. Likewise, the Federal Legislative Committee of the American Bankers Association was very helpful, and thanks are due also to many individual bankers who contributed so generously of their time and their ability to secure enactment of this law.

An Optimistic Outlook

"SO much has been written in explanation of the McFadden-Pepper bank act that it is not necessary at this time to point out or specify the numerous

advantages it carries. However, most gratifying and worthy of special mention is the change in the attitude of the banks themselves toward the Federal Reserve Act and the preservation of our National Banking System. For years national bankers viewed

Banking System is now more completely assured. Already the denationalizing of national banks has ceased, and some of the largest and most powerful state banks, not theretofore members, have entered the Federal Reserve System, and an increasing number of state banks have been converted into nationals. Therefore, we have a great deal to congratulate ourselves upon today, and we may well feel that a distinct advance in national banking has taken place during the current year.

"In the field of the fiduciary, too, considerable progress is noted. More than one-fourth of all national banks now hold permits to exercise trust powers and to maintain trust departments. Latest reports show that out of approximately 7800 national banks 2300 have been authorized, and that more than one-half of that number are engaged in the performance of actual trust work. This is a very creditable showing and indicates satisfactory progress.

Unusual Opportunities

"THE advisability of entering the fiduciary field becomes more apparent each year. It offers an unusual opportunity to the national bank which will properly equip itself to handle the work in a successful way. Likewise, it makes available to the public a service the value of which is more generally recognized today, and which by its very nature is destined to be availed of by an infinitely greater proportion of our people. Trust departments of national banks functioning under laws enacted by the National Congress, and under regulations laid down by the Treasury Department of the United States subject to rigid Federal and state examinations, and guided by the experience and business judgment which has characterized other phases of national banking, should continue to attract.

"In addition to the acknowledged greater efficiency of corporate administrations, the costs of such make a strong appeal. They are shown to be considerably lower than the average incurred by individuals. The availability also of the national bank in a trust capacity attracts favor. There are
(Continued on page 371)



E. A. Onthank, President Safety Fund National Bank, Fitchburg, Mass., incoming President of the National Bank Division

with disquieting thoughts the spectacle of prerogatives being swept away one by one, and their ability to serve their clients fully being gradually lessened. They looked with alarm upon the growing disparity between the powers of state banks and those of national banks and the consequent narrowing sphere within which the latter were compelled to operate.

"Happily, however, this situation has changed, and the future of our National

Making Investments for Banks

By H. C. NICHOLSON

Vice-President, Packers National Bank, Omaha, Neb.

Position of a Commercial Bank Has Undergone a Change As More of Its Deposits Are Not Payable on Demand. Portfolios of Banks Contain More and More Bonds and Other Purchased Investments. Speculation in Securities Entirely Beyond Province.

FORMERLY cash and strictly commercial loans were recognized as the only good bank assets. Today there is found in the portfolio of nearly every banker a round amount of purchased investments. By this name we shall know call money, acceptances, commercial paper and bonds.

In recent times the position of a commercial bank has undergone some change. Ten years ago 93 per cent of the deposits were payable on demand. Today more than one-quarter are on time. Today there is at our command the rediscount privilege of the Federal Reserve System. The necessity for quick assets in such a large ratio has passed. National legislation has recognized the changed conditions and has materially reduced legal reserve requirements. Idle funds must go to work. Such funds may be loaned to our worthy borrowing customers, or they may purchase investment securities. The customer's loan needs little comment, as it constitutes the primary function of banking. The prosperity of the bank depends upon the good will of its customers, and they must be served. However, the experience of the past few years has taught that there is safety and stability in the diversification of the class of our loans and investments.

The Secondary Reserve

WE build up our defenses as weak places appear in our financial structure. Thus has developed the so-called secondary reserve. It is the investment of surplus funds in high grade, quickly marketable bonds, and in short time, self-liquidating paper that is eligible for rediscount. Such investments occupy a midway position, both in interest return and liquid character, conceding something of one virtue for benefit in the other. And the safety of the investment and its stabilizing influence is entirely compensating. The exact amount of this secondary reserve, and its proper ratio to local loans, varies with geographical location and seasonable conditions. The answer can only be obtained by a careful analysis of the individual bank. It has been suggested it should at all times at least equal the legal reserve requirement.

Call loans, acceptances and commercial paper have some advantages over bonds, namely, comparative nonchalance in making the individual selection, and relative freedom from attention during the life of the investment. They suffer no loss from depreciation. In call loans and acceptances, the loss occasioned by default has been negli-

gible. The average annual loss in commercial paper is less than one-fiftieth of 1 per cent. These three classes of investments will be treated briefly.

Funds put out on the call money market are well protected by highly negotiable collateral, and by their very nature are extremely liquid. At a 4 per cent rate, they net 3.80 return.

Trade and bankers' acceptances enjoy a wide market, have sound security, are admitted to discount by Federal Reserve banks within ninety days of their maturity, and at present yield about $3\frac{1}{4}$ per cent discount. They are two-name paper and are exempt from the limitations of the act prohibiting national banks from loaning in excess of 10 per cent to any one person or firm. They are an excellent medium of investment, though their merits are not universally appreciated.

The purchase of commercial paper has become sound banking practice, because it fulfills several fundamental requirements. It is a safe, self-liquidating form of short-term investment. The return is fixed and definite, and is in the form of discount. It is rediscountable in the Federal Reserve bank. Its face value does not fluctuate. Records show if all commercial paper names were purchased indiscriminately without credit investigation, buying banks would have lost only twenty cents on each \$1,000 purchased. The commercial paper market has had a great development in the past twenty years. The panic of 1907 established such paper as a desirable investment.

So much for the short-term paper. Each class qualifies without reservation as an excellent medium for the employment of surplus funds, and in the maintenance of a secondary reserve.

The Characteristics of Ideal Investments

THE ideal investment is recognized by certain characteristics: security of principle, equitable income return, and wide, active marketability. It should be acceptable for rediscount and collateral purposes; be exempt from direct taxation and have a good chance for appreciation. Bonds possess these qualities in varying degrees. Obviously they cannot exist to a high degree in the same investment. A bond that is thoroughly safe will not return a high rate of interest, and at the same time have a broad market. Consequently, such investment should be arranged so that these qualities are combined in proper proportion. The bond which fulfills more of these

requirements than any other investment security naturally stands in a class by itself. It is the obligation of the United States government. It typifies the utmost in safety. It commands a broad market. It is the only bond acceptable for collateral purposes in the Federal Reserve banks. It enjoys certain tax exemptions. It has shown some remarkable price appreciation in the past, and it is an easy assumption that the remote maturities will show compensating appreciation in the future. The interest return on such an outstanding type of investment is, inevitably, the lowest of any bond. The ideal foundation for any investment fund is the Liberty bond and the Treasury Certificate.

Municipal bonds differ as do the magnitude of the stars. For which reason a discussion of them will necessarily be very brief. They are generally tax exempt, which is their outstanding characteristic. Their income return will vary inversely with their security and their marketability.

Foreign dollar bonds enjoy some popularity on account of the differential in yield between them and domestic bonds of comparable security. Foreign government bonds are alike in one respect; the bondholder enjoys no real security, except the good faith of the borrowing nation. The performance of a domestic corporation may be enforced by legal procedure, but against a foreign government such remedy is not available. Two factors then determine the credit rating of a nation—its will to pay and its ability to pay. It should have a stable form of government and be likely to continue so. It should be free from internal and external conflict. It should balance its budget. It should have a currency based on a metal, preferably gold. Its debt record should be good. Our own economic conditions since the World War have led us into foreign investing on a large scale. We have changed from the world's greatest debtor to its leading creditor. This new policy requires careful study to judge accurately the individual foreign credit position. The obligations of those countries with a good credit record and a prospect for peaceful prosperity constitute a bank investment that is safe and otherwise desirable.

The Corporation Bonds

CORPORATION bonds may be divided into three classes: railroads, public utilities and industrials.

Thanks to efficient management, railroad bonds have returned to public favor. Twenty

(Continued on page 425)

A Way Out of the Tax Problem

By THORNTON COOKE

President Columbia National Bank, Kansas City, Mo.

Would End the Conflict Between State and Federal Laws. Seems to Work Fairly Well in Most of the States That Have Adopted It. Provides for Equality. It is Flexible and Capable of Adjustment to Varying Requirements. Issue Is of Grave Importance.

THE power to tax is the power to destroy." To make sure that no local jealousies or misapplied theories of state rights should tear down the national banking system, Congress very early provided that the states must not tax the shares of national banks more than other moneyed capital. For more than half a century that provision, contained in Section 5219, Revised Statutes of the United States, has been a national safeguard against excessive taxation not only of national but of state banks; for, of course, if the states could not tax national bank shares more than bonds or mortgages or other moneyed capital, they would not tax state bank shares appreciably more.

This winter tax commissioners of a number of states will probably attack this safeguard in Congress. It is practically all the safeguard there is against destructive bank taxation.

What the tax commissioners want is to have Congress to amend Section 5219 so that the states may tax national bank shares as highly as they please if they tax state bank shares to the same extent. Other competing moneyed capital would no longer be the criterion. They asked for such a change once before and were unsuccessful. Why is it that they plan to ask again? To tell why it is necessary to go into some details of tax legislation; but the facts will not be found tedious or dry, for taxation is one of the most important elements of our bank expense budgets, and controllable only if we understand tax legislation well enough to argue our own cause.

Tangible Subjects of Taxation

THE limitation upon the taxation of national banks was not criticized for many years. But economic progress created wealth in many forms, and there came to be men of large means who owned relatively little tangible property. The flour mill, for instance, was no longer a small water-power affair owned by the miller himself, but a structure costing a million to build and equip, much of the million furnished by hundreds of people who had bought its bonds. Bonds are easy to hide and will be hidden if we try to tax them like real estate. Many of the states, therefore, began to tax bonds and other forms of credit at rates much lower than those imposed upon tangible property. Now bank shares are classed economically, along with money, notes and the like, as intangible, but as subjects of taxation they

are very tangible indeed. The assessor has only to refer to our own published reports to find out the amount of our capital, surplus and undivided profits. It was only natural, therefore, that most states continued to tax banks in the old way, on the sum of their capital assets, even when taxing so-called intangibles only one-fourth or one-half of one per cent of their value. But, as to national banks, this discrimination was unlawful, and the Supreme Court of the United States so held six years ago in the famous Richmond case.

The tax commissioners of those states where low rate taxation of intangibles was in vogue then sought to have Section 5219 amended so as to permit the states to tax national bank shares as high as they pleased, no matter how low the rates were for intangible property, so long as state bank shares were taxed as high as national. The American Bankers Association opposed such amendment, and, by way of compromise, the law was changed in 1923 to permit the states to tax national bank shareholders on their dividends, or the banks on their incomes, or to continue to tax the shares as theretofore. No state could use more than one of these three methods of taxation. Now, in the state of New York all corporations but banks were already taxed in proportion to their income, and the banks desired to be taxed likewise. But the legislature would not agree to that, because it could not, as Section 5219, Revised Statutes of the United States, stood after the amendment of 1923, make the taxation of banks and other corporations exactly equivalent. These other corporations were paying to the state excise or franchise taxes equivalent to taxes upon income that, under Federal statutes, would have been exempt from taxation directly as income. The distinction between taxation upon income and taxation according to income or measures by it is technical, and it is not necessary to go into it here. There is such a distinction, and I refer to it merely in recalling how this Section 5219, in which is the chief national safeguard against discriminatory taxation of banks, assumed its present form, and what it is worth to the banks and the country.

Four Alternatives

THERE was a further reason why New York state would not establish income taxation of banks until this famous Section was again amended. Not only were other corporations subject to income taxation, but their shareholders were also taxed on their dividends, a duplication expressly prohibited

in the case of national banks. With the assent of committees of the American Bankers Association and of the National Tax Association, Section 5219 was last year again amended so that, as stated by Thomas B. Paton, our General Counsel in the AMERICAN BANKERS ASSOCIATION JOURNAL for April, 1926, it now

"provides four alternative exclusive methods for taxing national banks, viz.:

- (1) Taxation of the shares as heretofore.
- (2) Taxation of the dividends as personal income as heretofore.
- (3) Taxation of the bank on net income, as heretofore, and
- (4) Taxation of the bank, according to or measured by net income.

"The adoption of any one of the above methods excludes the other three with an exception. That exception is to accommodate states which tax personal income and also impose corporation franchise or excise taxes. The bill is designed to permit the taxation of national banks and dividends to their shareholders in such states to the same extent as said states tax corporations and their stockholders upon their dividends as personal income."

So much for the history of one taxation safeguard. There is another, of course, in the fourteenth amendment. It is important, and the Supreme Court of my state, Missouri, has just held that it prevents the assessment of bank shares at full value and other property at 75 per cent. The fourteenth amendment, however, will rarely affect bank taxation problems so fundamentally as Section 5219. To amend the latter as some state officials want would take the lid off.

A Concrete Illustration

A CONCRETE instance will show why there is likely to be such a movement to amend. The United States Supreme Court in February of this year held that the Minnesota three-mill tax on money and credits, and the even lower tax on mortgages, amounted to discrimination, and invalidated the taxation of national bank shares. The court found that large amounts of capital invested in bonds and mortgages, not only by corporations but by individuals, were competing with national banks. This decision makes it necessary for Minnesota and other states that have preferential tax rates for money and credits to advance those rates or tax banks on their incomes, as I shall explain later. Wisconsin, whose provisions for taxing national bank shares were held invalid at the same time the Minnesota case was decided, and for practically the same reasons, has already enacted an income tax for all banks. On the other hand, the officials of some states would like to keep their tax systems intact by inducing Congress to amend what I have called our

chief national safeguard against excessive bank taxation, so that bank taxes should not be limited by the taxes levied upon moneyed capital in the hands of other corporations or of individuals. Then, it seems to me, there would be no effective safeguard left.

Or would there? This limitation would remain, that national banks could not be taxed higher than state banks. Is not that enough? Well, what do you think such a limitation would amount to in your own states? I am thinking particularly of those states, and they are the great majority, where the banks are still under the general property tax.

Where have your state and local taxing authorities been wont to look when they wanted more money to spend? Haven't they looked your way? Haven't they advanced your assessments just as far as they legally could? Of course they have. I don't mean by this statement to blame them; they have mistakenly felt, I suppose, that bank stock owners were rich and could afford to pay on very large assessments. I want you to consider, however, what would happen if Section 5219 of the Revised Statutes were amended as proposed.

Does it not seem clear that in most states, if the taxes imposed upon state banks and trust companies were the only limit upon the taxation of national banks, the authorities would simply put all banks into a class by themselves for the purpose of taxation and levy upon the banks a very large part of the taxes required to meet the constantly increasing needs of state and local governments? If in some states it would be necessary first to amend the constitutions, that would certainly be done.

Excessive Taxation and Bank Failures

WHAT would be the effect of such increase of bank taxation? All banks would have greater incentive than ever before to keep their capital and surplus small, and depositors would have less protection than is their right. You all know that this tendency has been at work already and that excessive bank taxation has had something to do with bank failures. And, even if it does not fail outright, no bank or other business is likely to be strong and useful if it does not make reasonable profits.

But what business is it of the Federal government to limit state and local taxation? Well, as to national banks, certainly the government has an interest. National banks are still agencies of the government, and make up by far the largest proportion of the membership of the Federal Reserve System. Congress should not allow their profits to be minimized and their capital curtailed, as they surely would be in many states if it became possible for the legislatures to tax banks by themselves. The argument of local convenience must give way to the argument of national welfare; we must not weaken our national banks.

Yet we cannot simply obstruct. While some money can be saved by efficiency in public administration and economy in public expenditure, taxes in the aggregate are not likely to come down. Why did they go up? We are undertaking in a public way to do things that we did not attempt to do govern-

mentally or as communities a few years back, and we have since expanded beyond anticipation such enterprises as were already functions of state and local government.

Largest Single Item of Farm Taxes

EDUATION, largely teachers' wages, is the largest single item in farm taxes. A Kansas cattleman complained to the writer one day that the taxes on his ranch had been raised in order to send out a bus each morning to bring the children of the township to school. And on the same day a rich city resident dropped in to complain because money was being spent in the new high school for a swimming pool and a gymnasium. But are we likely to take swimming and athletics out of our educational programs? Or cooking? Or sewing? Or carpentry? The teaching of these subjects costs money—money that we did not have to spend a few years ago.

The cost of state and local government is not likely to fall. Taxpayers do not really want it to fall. Agricultural experiment stations? How, without them, should we learn how to conquer the corn borer, the cotton weevil and the other insects that contend with the human race for the products of the earth? Inspection of milk and other foods? Water supplies and sanitation? Hospitals? The decline in the rate of deaths from typhoid and tuberculosis—the lengthening of the span of life—all are worth the taxes they cost. Roads, bridges, street paving? We want more of them. Lighting? How could we face the crime wave if lights were curtailed? No, more money must be raised instead of less, and while it would be against the public welfare to load more taxes upon banks and so weaken the custodians of the nation's liquid capital, we cannot content ourselves with saying: We can't pay more. We should point out how the additional public revenue that will undoubtedly be needed can best be raised. If we do not point out the way, and convince our respective legislatures that it is the right way, we must not be surprised if they stick to the theory some of them so evidently hold, that the capital of the banks is the easiest source of revenue.

Generally speaking, the farmer should not be asked to pay more taxes for some years to come. Proportionately, the farmer's assessment has grown most during the period of rising state and local expenditures that have followed the war. Bank assessments were already so high that relatively they could not be raised so much as farm levies. Farm taxes per acre increased 126 per cent from 1913 and 1914 to 1921 and 1922. In Kansas, from 1913 to 1923, the price of land per acre went up 28 per cent, while taxes increased 132 per cent. Land prices are decidedly lower now than four years ago, but taxes have come down only a little.

A witty French financier, Colbert, said more than 200 years ago that the art of taxation consisted in plucking the goose with the least squawk. If that is so, we must change our system. We are getting too much squawk from two important classes, the farmer and the banker.

Where can our states and cities get the additional revenue modern administration

demands? That is a tremendous question that must be left to each state itself. Some states have supplemented their general taxes with specific taxes on ore mined, oil taken from the wells, or timber cut. Others tax the sales of gasoline and tobacco. All tax motor vehicles at the annual registration. One taxes theater admissions.

The Income Tax for Banks

FOR a solution of the problem in a large way, can we find anything better than the state income tax? For the banks, that would be the ideal way out of conflict between state and Federal laws. Massachusetts put all banks upon the income basis of taxation under the amendment of 1923 to Section 5219. New York followed after the amendment of 1926. Wisconsin followed this summer, and more states ought to welcome the opportunity to establish this just plan of bank taxation and so avoid the litigation that banks in so many states will otherwise be compelled to undertake to overcome the injustice of unequal assessments under the general property tax. Especially should states that desire to tax intangibles at low rates consider income taxation for banks. So long as they impose substantially equal income taxes upon all the corporations, including banks, there is nothing in Section 5219 to prevent their fixing as low rates as they please upon moneyed capital in the hands of individuals.

The state income tax seems to work fairly well in most of the states that have adopted it. In a few states business men are reluctant to consider its establishment for fear that industries would then locate elsewhere. No state wants to handicap itself in business competition. But if the advantages evident in the income tax from many points of view should lead many states to adopt it, there would be no question between them of advantage or disadvantage by reason of their tax systems.

The chief argument for the income tax is, of course, its equality. Another is its flexibility. More readily than any other tax, it can be adjusted to the varying requirements of the public service.

Even the United States could never have fought the war if its sudden financial requirements had fallen upon one class alone. And it was the use of the principle of raising revenue from and according to income that filled the gap in the nation's revenues.

It is perfectly evident that the problem of bank taxation will not be solved except by the solution of taxation in general. All of us are learning that the old general property tax system has been too long an incitement to evasion, a penalty for success and a brake on progress. Bankers are better informed upon the subject than many other citizens, but all of us need far more information than we have. We cannot know what is going to happen to us in the matter of taxation unless we study out general trends and shape them into what we conceive to be for the best interests of our business and the common good. Our state and local governments are going to spend more and more money. That money can be raised in a way to hamper industry and destroy prosperity, or it can be raised with justice and with hardships that will be in-

(Continued on page 420)

How to Use a Financial Statement

By M. H. CAHILL

President, Utica National Bank and Trust Co., Utica, N. Y.

Offering an Intelligent and Complete Analysis of Assets and Liabilities, It Should Furnish an Accurate and Complete Picture of a Particular Business. Balance Sheet Should Be Accompanied by an Operating Statement. Most Important Items.

THE purpose of the financial statement is to furnish an accurate and complete picture of a particular business, which can be used as the basis for procurement of desired credit. It is supposed to be and should be an honest, accurate, complete, intelligent analysis of assets and liabilities, which should show on its face the soundness or unsoundness of the particular credit applicant.

The financial statement from a theoretical standpoint is simple enough. It is its use which is the complex part of the proposition.

Before we can intelligently analyze or use the financial statement, it is necessary that we have a clear and definite conception of credit. In other words, we should know why and how we are going to use the financial statement.

The definition of credit, of course, as we understand the term, is that name given to the transaction whereby the delivery of money, merchandise or other consideration is made upon the premise of future payment. Credit is the greatest asset in the world because it is the basic foundation upon which all commercial, industrial and financial activity is carried on.

What Credit Is

CREDIT is a very delicate proposition and one that is more easily destroyed than created. Someone has aptly described injured credit likened to a beautiful piece of broken porcelain. You might glue it together again and it might look just as good as new, but the cracks are there, and you cannot forget that it was broken.

Credit is based upon confidence, confidence in man's resources and ability to pay, confidence in his character, capacity and integrity, confidence in the stability of the locality wherein he conducts his business.

Credit-making is an estimate or opinion of future business conditions and of the ability of business men to carry out successfully their business contracts. The man who buys on credit, therefore, is basing his entire success upon the anticipation of future profits. Therefore, the banker who sells credit must have the ability and vision to correctly foresee and analyze these particular conditions which are going to bring forth the profits in the transaction that he is called upon to finance.

In my opinion the problem which confronts every credit officer is threefold: First, he must by investigation satisfy himself that the credit applicant has sufficient current resources to insure the payment of the loan when due; second, he must fur-

ther satisfy himself that future business conditions from an economic standpoint, which affect this particular transaction, are going to be such that he is justified in the belief that this particular transaction can be carried out successfully; third, he must investigate and satisfy himself of the character and capacity of the individual or individuals involved to the extent that he may decide in his own mind and to his own satisfaction, not only that they can carry out this particular transaction or obligation, but that they will carry out this obligation.

One may ask how are we going to uncover sufficient facts to warrant sound conclusions on these three points? Of course, the scientific method to pursue in the investigation of any subject is to reduce it to its simplest elements and by examination determine why and how these elements are related, and thus detect the laws and rules governing their relations.

Every activity of life, whether it is organic, social or economic, is governed by a set law, natural or otherwise. Natural law has been defined as generalization of facts, a generalization deduced from a multitude of facts, all of which point to one conclusion, and we are told that science does not consist merely of the securing of a large number of facts any more than the piling of stones means architecture, but rather of the detection of principles which govern particular elements. That is a pretty good rule to follow so far as a credit investigation is concerned. In other words, the credit investigator is not supposed merely to collect a great mass of heterogeneous facts, but rather to be able to classify and organize the facts at his disposal in order that they may point to certain definite conclusions which will give him a sound basis for his conclusions so far as this credit is concerned. That, to my mind, is where the financial statement comes in.

The Two Parts

THE financial statement, when properly and honestly constructed, should furnish sufficient facts for every credit officer to reach a definite conclusion as to the first problem—that of the financial condition.

The statement should consist of two parts—the balance sheet, which should contain in detail current and capital assets and current and capital liabilities, and the operating statement, which should have in detail income and expense, profit and loss. While it is not possible for me to define or analyze each particular item on a balance sheet, there

are, however, three items which I regard as the most important items on any balance sheet.

To my mind, the three most important items on a balance sheet are the surplus, bills receivable and inventory. The surplus account should be clearly determined to have as specific a meaning as any item on the balance sheet. It should represent always an actual net balance of profits over and above all necessary and proper reserves, because only in this way can it be a true index of the real condition of the particular corporation, and that is what it is supposed to be.

In my opinion the most dangerous item on any balance sheet from the credit officer's standpoint is bills receivable. Why? Because it is frequently used as a place where putrid assets are carefully and cleverly concealed. We should, therefore, thoroughly analyze the item bills receivable to determine, for example, what portion is represented by current bills for merchandise sold which are not yet due, what portion represents past due and disputed claims, and particularly what portion represents overdrawn accounts of officers. The importance of that particular item was impressed upon me recently. I was called upon to analyze the financial statement of a corporation which had total resources of something like \$600,000. Upon carefully analyzing the item bills receivable, which were very heavy on this particular balance sheet, I discovered that \$200,000, or a third of the entire resources of the corporation were represented by two notes due from two officers of the particular corporation. The balance sheet at first glance showed an excellent condition theoretically but with a third of its assets due from officers of the company in bills receivable, it did not look so good.

Determining Book Value

INVENTORY is another particularly important item, and should always be carefully analyzed to determine how book value is arrived at; in other words, whether it includes administrative and selling costs, or whether merely manufacturing costs. It should be also carefully analyzed to determine whether or not the goods represented on that item are current goods or whether they are carried over goods, which are out of style. The banker should get as accurate as possible an estimate of the actual liquidation value of inventory, and if he fails to do so serious consequences may result.

If an analysis of these particular items
(Continued on page 403)

The Savings Bank Division

The Change in Attitude Relative to Investments of Customers.
Protection of the Public from Sellers of Worthless Securities.
Stephen I. Miller's Warning of the Dangers of Too Much Competition. Failure to Recognize the Fundamentals Revealed.

IN his address as President of the Savings Bank Division, W. R. Morehouse, vice-president of the Security Trust & Savings Bank of Los Angeles, made reference to the change which had taken place in the attitude of the banks toward the investments of customers.

"Five years ago," he said, "if you gave any advice at all, it was the sort of advice that we did not care to give aloud. We preferred to whisper it rather than shout out loud. If the customer was deaf, he did not get any of it.

"Today we have become more and more bold on this subject, and we find that our banks are not only freely giving advice on the matter of investment, but some of them have installed investment departments. If you have never had one, I want to say to you it is one of the most profitable departments in the banking business.

"I do not want to stress this from the standpoint of the profit to the bank. That is the wrong way to present it. We should present it from the standpoint of what it will do for the investor, because it will certainly do more for the investor than it will for the banker. We are not only giving advice, but we are selling to our customers the same kind of security we buy for our own account, and in this way we are saving our customers a lot of grief as well as saving their accumulation."

The other program speakers before the divisional meeting were: W. Epey Albig, Deputy Manager of the American Bankers Association, whose subject was "School Savings"; Harry W. Riehl, manager of the Better Business Bureau of St. Louis, who talked on "Gold Brick Financing," and Stephen I. Miller, Educational Director of the American Institute of Banking, who discussed "Fundamentals in Savings Banking." These addresses appear elsewhere in this issue.

PRECEDING the address of Mr. Riehl, M. E. Holderness, one of the directors of the Better Business Bureau of St. Louis, told of the modest beginning of the Bureau and of the little interest taken in it at first, contrasting that condition with the genuine interest and active participation of business leaders at the present time.

"When we first started the Bureau in St.

Louis," said Mr. Holderness, "it was with difficulty that we could muster \$5,000 for the work. It was with difficulty that we could get men who were willing to undertake the dangers, as we then looked upon them, of work of that character. If we had one-half dozen men together in a meeting we thought we were doing well. We

detectives, the prosecuting attorney and altogether about twenty officials who are co-operating constantly and gladly with the manager of our Better Business Bureau."

A WARNING against one of the possible reactions of excessive competition in banking was sounded by Stephen I. Miller in the course of his address on "Fundamentals in Savings Banking" when he said:

"Competition may be one of the rocks upon which banking in the future is going to strike so hard that it is going to cause a reaction in the shape of control and investigation, even greater than anything you face today. One reason why you have got an Interstate Commerce Commission was the rebate, and if in banking you are going to have a man who carries \$500,000 in an account receiving some kind of recognition in the shape of interest upon balances, which is out of proportion to the interest or no interest that the smaller accounts receive in that bank, then that kind of competition for that kind of an account is going to draw attention somewhere, and I am not sure that theoretically the case is so much different from what we faced years ago in other lines of business.

"If competition is going to make it impossible to give the proper standards to business, if you are going to over-compete in service, if you are going to over-compete for loans, if you are going to over-compete in establishing thousands of banks that ought not to be established at all, if that is the kind of thing bankers are running into now, that kind of competition, the failure to recognize these fundamental

principles in banking is doomed for control, and banking will fall under such administration as will bring out the necessity for the standards."

Resolutions adopted by the Division urged the installation of the school savings system as rapidly as possible throughout the country and asked that bankers generally renew their efforts to safeguard their patrons' savings from the promoters of fraudulent and highly speculative schemes, and to help provide depositors with satisfactory investments.

George L. Woodward, treasurer of the South Norwalk Savings Bank, South Norwalk, Conn., was chosen president of the

(Continued on page 404)



George L. Woodward, Treasurer South Norwalk Savings Bank, South Norwalk, Conn., Incoming President Savings Bank Division

struggled along. We had to sell the department store men and the clearinghouse banks and resell them year after year.

"Today the president of the Better Business Bureau of St. Louis is the chairman of the board of the Federal Reserve Bank. Instead of having \$5,000 as an annual budget, we have a budget reaching five figures, and instead of having one-half dozen or twenty men to attend a meeting, I am proud to tell you that on last Wednesday we had a meeting which was attended by every state official who has anything to do with the Blue Sky laws of the state, the judges of every court in the city of St. Louis, the police commissioners, the chief of

Dominant Trends in Banking

By W. R. MOREHOUSE

President Savings Bank Division; Vice-President Security Trust & Savings Bank, Los Angeles

Never Before Have There Been So Many Constructive Movements in Banking Under Way at One Time. They Make For Stronger, Better Operated, More Serviceable Institutions and For Greater Thrift and More Respect for the Banking Profession.

THE day for the bank of limited service is passing. Departmental banking with its wide variety of services is rapidly gaining in popularity. Instead of transacting certain business in one bank and other business at another bank, the bank customer is finding it to his convenience to transact all of his business under one roof.

Although in its infancy, departmental banking is a mighty healthy youngster, and I predict that it is only a matter of a few more years when nearly all banks will be conducting a departmental business.

The passage of the McFadden Bill has done much to advance departmental banking, especially among national bank members of the Federal Reserve System, who have since established savings and trust departments.

With a greater variety of services to offer the public, banks will discontinue the practice of sending their customers to other financial institutions for a service which the banks themselves should render. Instead, banks will find it to their advantage to take care of all of their customers' needs, at least within reason. One of the signs of the times is for banks to render complete financial service. Ultimately, nearly all banks in the United States will be departmental banks, rendering a similar service.

Bank mergers are becoming quite common. Not only are some of our larger banks consolidating, but some of our smaller banks are also joining forces. No doubt some bankers will see in these mergers grave consequences while other bankers will regard the trend toward consolidation as a good sign. With the latter the monopolistic feature will be completely overshadowed by the added strength which mergers will give to the merged banks. In addition to greater financial strength some will hold that these mergers will promote greater efficiency within the consolidated banks. So while the tendency to merge may not have the endorsement of all, it will have many supporters.

Fewer Failures

ANOTHER sign of the times points to a less number of bank failures in the future. Having tried the bank guaranty of deposits plan with disastrous results in certain cases, our bankers are looking elsewhere for a remedy. In the main, they are agreed that failure in many cases is due to an under capitalization of the banks involved. To remedy this, a higher capitalization is urged, with the minimum in the United States fixed at not less than \$25,000. An adequate capi-

talization of banks can be anticipated in the near future.

Another sign of the times points to a reduction in the number of bank robberies. Alarmed over the daring of bank robbers and the frequency with which they rob banks our bankers have united for definite action. More drastic laws are being enacted which make bank robbery extremely unattractive and an offense punishable by long imprisonment with little hope of probation.

In some sections vigilante committees have been organized for the purpose of actually combatting crime by giving battle to the bank robber, on the basis of "shoot to kill." Other sections have offered a reward of \$1,500 for the capture of each bank robber, with an additional reward of \$1,000 if the robber is brought in dead. If I understand human nature, the additional reward will have the effect of bringing in more dead robbers than live ones.

Robber's Life Grows Harder

REGARDLESS of our individual views as to the best way to solve the bank robber problem, one thing is certain, our bankers are gradually making it "hotter and hotter" for the robber.

One of the most promising signs of the times is to find our bankers meeting in community groups for a consideration of the financial problems of their respective communities. It is not uncommon to find representatives of different banks freely laying their own banking problems before the members of these groups and asking for suggestions. Also, at these meetings there is an exchange of experiences in the use of business-building mediums. Agreements are also reached for eliminating unwise competition and too much free service.

Instead of antagonistic and ruinous competition, we find that friendly cooperation and fair competition prevail among the banks represented at these group meetings. A sign of the times which promises much for the future of banking is seen in the holding of such conferences.

Alarmed by the irreparable loss to depositors through unsound investments, our bankers are devoting a great deal of attention to ways and means for checking the activities of high-pressure promoters. Never before in the history of banking in the United States have bankers cooperated to such a great extent in meeting the attack of these wild-cat promoters on bank depositors. Not only have the various schemes of unscrupulous promoters been given nationwide publicity through the press, but in co-

operation with other business organizations like the Better Business Bureaus, definite steps have been taken to rid our land of all schemes used to defraud the depositor.

Many banks are already giving advice to those contemplating investments. Some banks have gone a step farther and in addition to giving advice have established investment departments where depositors may purchase safe securities. One of the most encouraging signs of the times is that in the future the bank depositor is to receive sound advice on investment matters. He is to have placed at his disposal the facts about investments—a service of inestimable value. Think what it will mean to legitimate business to have the billion dollars lost annually in unsound promotions and half-baked ventures made available for legitimate enterprises.

Another of the signs of the times points to a concerted movement on the part of bankers to discourage the promiscuous use of the term "banker." Today the one-horse pawnbroker calls himself a banker, the fly-by-night real estate dealer who happens to sell a few pieces of property calls himself a banker, and the man who sells a mortgage occasionally calls himself a banker. This abuse has become so widespread that it is ridiculous. Persons are calling themselves bankers who know practically nothing about the banking business. One of the signs of the times is that a spade will be called a spade, a pawnbroker will be called a pawnbroker, and only a banker will be called a banker.

Thrift Wise Spending

ONE of the signs of the times gives assurance of closer attention to a new phase of thrift, namely, the exercise of thrift through the wise spending of money. For example, a subject which has received universal consideration this past year is that of "Instalment Buying."

Bankers everywhere are giving the subject close attention. Now that this plan of financing is being greatly abused in thousands of cases through the purchase of luxuries and non-essentials, it raises the question of what is wise spending. Thrift has always been largely a matter of systematic saving—but now in addition to saving, it is also a matter of wise spending.

The reckless abuse of the instalment plan has caused our bankers to urge a closer attention to the wise spending as a means of saving. One of the signs of the times points to a closer attention to the spending of income.

One of the most promising signs of the
(Continued on page 381)

The Wide Scope of School Savings

By W. ESPEY ALBIG

Deputy Manager, American Bankers Association

Actual Savings of the Child Is One of the Least Important Factors in the Movement. Instruction of the Young in the Management of Income and Early Training in the Science of Investment Are Among Real Benefits Which Result From Thrift Teaching.

SCHOOL savings is a misnomer. Years ago it was the term given to the funds which school children deposited in school savings banks. That name persists, although the idea and the philosophy back of school savings regards the actual savings of the child as one of the least important factors.

Unfortunate, too, in a way is the name, since some ordinarily well-informed persons, including a few educators, have regarded school savings simply as a method used by banks to exploit school children or to teach banking in the public schools. School savings is simply an adjunct of thrift in its larger sense, or, better yet, of income management, which is slowly winning its way into the public schools as the capstone of other courses introduced since the founding of our free public school system.

Following the introduction of technical education in the public schools, there came to be vocational guidance. These have had a measure of success, but have not been completely successful, because they have lacked the factor which enables the person receiving that instruction to apply properly his information in practical living.

The shores of life in the United States are covered with wrecks caused by lack of knowledge of income management. The shortened hours of labor, the high wages, the sales pressure, have made more imperative the education of the people in the matter of thrift and income management.

Beginning of School Savings

THE first attempt at the mechanics of school savings was through a method utilized in France. Installations were secured in a few places in the United States, not because of any specific demand, but simply because it was used abroad. The results were not encouraging. Its need was not realized and its methods not suited to American practices. The tedium of operation which fitted well when dealing with an uneducated group was not to be borne with equanimity by pupils in the American schools. But from this humble beginning there developed the system which, as of June 30, 1927, has been introduced in over 12,000 schools, has almost 4,000,000 participants, deposited during the year past almost \$24,000,000, and had at the end of the year net savings for the year of \$9,500,000 and bank balances of over \$39,000,000.

As a background for this present situation, when more than half of our people live in urban communities, where the children have no adequate knowledge of the

meaning and use of money through actual earning, there is the scene of a few years ago, when the majority of the people lived in rural communities and when knowledge of the meaning and use of money was absorbed by the child from its infancy.

It is a far cry to the time when practically all articles used in the home were manufactured there. The neighboring stream turned the wheels of the grist mill and the saw mill; the loom turned out fabrics from flax and wool grown on the farm. Every community supported its own tannery. The storekeeper combined his service with that of banker. The local squire was the high judge of the community. Actual money was in small quantity and represented in most cases simply the profit of a year's work. The purchase of every article was subject to consideration in the light of the whole family's needs. Power machinery brought the factory system and made an end of the home as a self-contained unit.

Our Industries Speeded

GOOD wages, sustained employment, and installment buying have speeded our industrial plants to a production unparalleled. The elimination of all home industry has sent the various members of the family into different occupations, and has eliminated the family council from a consideration of a basic budget for operating the home. Eight million girls leave home every morning for industry. Salesmanship has been carried to the highest perfection. In urban centers the brain is almost dazzled with the whirlwind of impressions starting from the electric signboards at night.

In the face of this change in American life there has been no commensurate development in training the children in the meaning and use of money. The present system might well be called the "trial and error" method, and those whose trial becomes an error are frequently found among the misfits and the unfortunates of life.

Fifty years ago the ordinary child, upon reaching eighteen years of age, had a pretty exact knowledge of how it was necessary to spend his income so as to secure its utilization for his best interest. Today, at eighteen years of age, the youth in many cases has not begun to earn an income, and is spending upon emotional reactions funds which are contributed by his parents, the value of which, in terms of work, he has no knowledge and scant consideration.

With all the complexity of living, which has grown apace with our industrial and commercial development, our children are

turned out of school with scarcely more knowledge of the tools with which they achieve personal success than was true at the earliest period of our national history.

Bankers, economists, and social workers saw the result of this lack of education. As a result, desiring to improve the situation, but without an analysis in many cases of the underlying factors, they have supported the first movement which gave promise of remedying the situation. The agency utilized was school savings. Thrift came to be taught in many schools. In a number of states the teaching of thrift by legal enactment was required in the public schools. Thrift is a general term and can be applied to any number of activities.

The teaching of thrift, however, does not solve the complex problem of making a living, and too frequently has been associated simply with saving or stinginess or miserliness. The saving of cord from packages, the retrieving of used newspaper and magazines, the wearing of patched shoes, the absence of the fortnightly haircut, and various other almost mean economies have been urged under the name of thriftiness. Happily, however, school savings was rescued early from this category, and has had a tremendous growth in the last ten years. As more educators have turned their attention to the cause of this phenomenal development, they have discovered that its underlying cause was a desire for knowledge of income management. The child desired a convenient place for deposit, where the money would be his. As his deposits increase, he enlarges his horizon of earnings and makes a wiser selection of the object for which he saves.

School savings, developed under the guise of thrift, has defined its aims, has refused to be included in the general term of thrift, and has already to its credit the recognition on the part of pupils of the sacredness of property, of the elimination of charity from many poor homes, the formulation of life programs, and, better than all else, the saving of domestic happiness.

Domestic Accord Aided

POSSIBLY no two groups of persons are more familiar with the result of incompatible marriages than school teachers and bankers. The school teachers find it in children neglected as to education, loving care, and sometimes as to clothing. The banker finds it in unfulfilled commitments. Any survey which may be conducted will show that the cause of the domestic discord

(Continued on page 427)

Gold Bricks in New Wrappers

By HARRY W. RIEHL

General Manager, Better Business Bureau, St. Louis, Mo.

Victims Are Now "Lilies" But the Same Old Basic Schemes Defraud the American Investing Public of More Than a Billion Dollars a Year. The Only Remedy Seems to Lie in Education and In Giving Publicity to Methods the Swindlers Employ.

THERE is encompassed within the subject of gold brick financing a line of reasoning which offers the opportunity for security crooks to steal a monumental sum of money from the American public each year, but which, at the same time, places in the hands of legitimate financial institutions the opportunity to protect these same victims from this terrific annual loss. To me the subject presents the opportunity of developing two phases of modern day financial piracy.

First there is the dominant theory of gold brick financing—that financing, unworthy of the name, that takes from the American public in excess of one billion dollars per year. This theory is expressed in the simple phrase "types of fraud." Highly organized effort is utilized by stock crooks to get this enormous sum of money each year. It has been shown that these crooks go to school, that they swap "sucker lists"; learn the very rudiments of gold brick financing through the study and the application of the various "types of fraud" which they employ.

This system is so carefully hidden and so adroitly executed that even those of us who are engaged day after day in the field of legitimate financing often find that we are prone to minimize its importance and become blinded to its fearful consequences.

"Suckers" Now "Lilies"

"**S**UCKER lists" are a part of the stock in trade of the modern day stock jobber. The "suckers" are now listed under the new sobriquet of "lily." The gathering of these sucker lists is a regular business, and names, as "lilies" are bought and sold like cattle, at so much per head. These "sucker list" cards carry the name of the individual "lily," his address and telephone number, some of the stocks he has bought in the past, and other interesting data.

But what is more interesting, there appears on many of these cards a succinct pencil notation which clearly indicates how these shrewd individuals take advantage of our financial condition, our mental attitude, or our individual temperaments. They are the cryptic comment of the "dynamiters," as these phone men are called. They are the guides which simplify the working of the self-same cards by the next crew.

One reads "Hit this chap for a thousand shares—he owns a Packard." Another says, "Soak this bird for a hundred shares—he's a sweet mooch." Another laconically states, "Handle this guy with kid gloves—he's been burnt before." Visual evidence, this, that they study us, analyze our weaknesses, and

capitalize upon their innate ability to touch us where we are soft.

Stock promoters proceed on the old theory of "once a sucker always a sucker!" They believe that if an individual ever bit on any one of these "types of fraud," so well known to the stock promoter, that he has the necessary qualities of avarice, cupidity, or whatever you may want to call it, to produce for them again if the proper kind of persuasive literature or suave salesmanship is applied to that same susceptible soft spot that caused him to lose his money in the first place.

The "Reloading" Game

IT is this theory that gives rise to that type of fraud known as "reloading." Reloading is nothing in the world but taking advantage of the fact that the victim is already in the toils of the stock promoter and that he will spend more of his money in an attempt to get out. They well know that the same crap-shooting instinct, that same desire to get "something for nothing" which caught him in the first place, if properly nurtured can be caused to produce additional money through the application of another one of these types of fraud. Actual cases in my files show that original victims of a stock fraud have been "reloaded" as high as eight and nine times.

"Gold brick financing" simply follows the "type of fraud" method of getting the money. Most of the schemes used are basic. It makes no difference whether they come in a calico or a silk dress. When divested of their exterior raiment they can almost invariably be reduced to one of the basic types of frauds.

A pie and sandwich vending machine scheme that swept the country a few years ago was merely an adaptation of the old "blind pool" scheme. Ponzi simply took the old pyramiding scheme with which we are all more or less familiar, dressed it up in an intriguing garment of foreign currency and proceeded to extract several millions of dollars from frugal New Englanders. And, to top it all, as soon as he was released on bail in New England, he immediately proceeded to Florida and operated the identical "type of fraud" in the sale of Florida real estate.

The Endless Chain System of Selling is another good example. It is nothing in the world but a glorified edition of the old "blind pool" type of fraud, yet it took hundreds of thousands of dollars from American investors because they failed to recognize the basic type of fraud.

A partial list of the "types of fraud" well known to all Better Business Bureau executives are: bucket shops, boiler rooms, blind pools, tipster sheets, mergers, fractional share scheme, switching, reloading, one call system, the telephone razz, the tap system, puts and calls, stockholders' committees, dynamiting.

Each one of them furnishes an opportunity for the delineation of many experiences both interesting, romantic and educational to those interested in stemming this tremendous flow of honest money into the coffers of the financial charlatan. In the "financial triumvirate" of the stock promoting field there are three types of fraud involved, and the three types are practically inseparable. Where you find one of them you will invariably find the other two. These three types of fraud are: the bucket shop, the sucker list, and the phone room.

The bucket shop is where investors are inveigled into placing marginal deposits on the purchase of securities under the implied or expressed representation that the particular stock touted is about to rise and with the understanding upon the part of the customer that the stock will actually be purchased for his account. They differ from the legitimate broker in that the latter always purchases the stock ordered by his client without regard to the possible rise or fall of the market.

Preparing the Victim

VERY seldom is the new investor with the bucket shop asked to buy anything but listed securities of the well-known type. This is the bucket shop's most elementary lesson in sales psychology. He knows that reputable investment bankers and a carefully policed Stock Exchange have given an element of stability to listed stocks that his "pet stock" does not enjoy. He knows that somehow his company will absorb some of that stability, that feeling of security, which is associated with a recognized security when offered to a prospective client.

After the first or second sale is made the "switching" process starts. Switching is a distinct type of fraud, the ultimate objective of which is to "switch" the investor out of his well-known security into the worthless "pet" stock of the bucket shop operator.

In the meantime the stock upon which the deposit or margin has been made is seldom if ever used in the purchase of the ordered stock. The bucket shop operator gambles

(Continued on page 381)

But One Way to Meet the Problem of Competition

BY STEPHEN I. MILLER

Educational Director American Institute of Banking

That is By Cooperation. Business and the Public Reap No Benefits from Ruinous Competition. The Road that Leads to Oversupply, Depressions and Unemployment. Analysis of Costs Imperative. Test of a Good Account is Found in Account Itself.

ACCOUNTING and statistics have become fundamental cornerstones of modern business. Cost finding, business administration, and price determination constitute the trinity of industrial progress. A farmer without a knowledge of agricultural costs does not know what crops to plant and cannot anticipate his capital needs; a manufacturer cannot hope to price his products without a knowledge of the expense of producing them; no merchant can economically control his inventory when the costs of merchandising are ignored. Railroad rates are projected upon the knowledge of costs, and reviews by the Interstate Commerce Commission are based upon carefully prepared data; all budgets rest upon a background of anticipated expenses. Overproduction, cut-throat competition, business failures, and industrial depressions are largely the result of ignoring this primary principle of intelligent business.

The fact that many, if not most, business men do not know their costs would be about what one might expect after some experience in the business field. However, when one is brought face to face with the lamentable fact that many bankers do not know the costs of banking, it must be recognized that there remains a long road to travel before business assumes a scientific basis. When the post mortem of the 3000 bank failures of the past few years is completed, competition, without due regard for banking costs, will be written in letters large enough for every man to read.

A Chance for Profitable Cooperation

NOT only does intelligent price determination depend upon a knowledge of costs, but the economic administration of any business is in large part dependent upon comparative cost findings. Corn may be raised for 35, 40 and 50 cents per bushel by three different farmers; the ton-mile cost of handling a given classification of commodity may vary 50 per cent as between two railroads; the expense of handling a checking or a savings account may represent a considerable margin as between different banks. One of the most important factors in modern business enterprise has been the reduction of costs due to the study of comparative accounts in similar lines of indus-

try. The average business man may go on for years oblivious to the sweeping economies that might be uncovered by a careful analysis of his cost findings, or that might be suggested by the observation made of other businesses working under somewhat similar conditions. Even average costs, derived from the study of many competing units, constitute a mine of information for the alert executive. Banking offers no exception to the rule and the bankers of the United States might profitably cooperate in the equipment necessary to reveal the best and most economical practices in their profession.

In banking, cost finding concerns itself with a determination of the outlay in either interest or service as over against the income to be derived from loans, investments, and services. Further, such costs may be expressed in terms of individual accounts or of the different departments of a bank. There is nothing new in the application of cost finding. The department store is interested in knowing the expense involved in carrying the account of a customer as compared to the income received; this is also true of a railroad, of a lumber mill, and of practically every other business. It is true that profitable accounts are often taxed with the burden of carrying unprofitable ones. This means that the holders of profitable accounts are willing to pay more for their products, services, or loans in order that an unprofitable business may be maintained. A little arithmetic makes it clear that good customers pay the losses involved in poor accounts; and if the business fails then the cost involved in liquidation must be borne by the thrifty customers in that line of industry.

Sometimes it is said that it pays to take on an account even though it does not entirely carry itself. This argument is based upon the reasoning that as long as it pays something toward the overhead it should not be discontinued. This is only true when the no-profit account adds little or nothing to the total expense of carrying on the business. This may be illustrated in a brief and simple case. If the railroad fare from New York City to Philadelphia be \$3.50 and the coaches necessary to render reasonable service were at times half filled, then the vacant seats might be filled with fifty-cent passengers, resulting in added net profit to the railroad company, notwithstanding

the fact that the fifty-cent fare as a general uniform rate would be disastrous. The explanation of this paradox which has caused shippers and railroads much trouble is to be found in the heavy constant and fixed expenses of the railroad business. It costs as much to run a train half filled from New York to Philadelphia as it does when every seat is occupied. However, such a ratio of fixed to variable expenses does not occur in many fields of business endeavor. One thing is certain, it does not pertain to the banking business.

The Test of a Good Account

THE test of a good account is, with few exceptions, to be found in the account itself. The argument of nursing an infant industry is generally fallacious; to put an extra burden upon that which is able to walk alone in order to provide crutches for the disabled is excellent philanthropy but absurd economics. The conclusion is inevitable. Cost finding is the basis for segregating good and unprofitable business; and the no-profit account must be made profitable or must be eliminated. Philanthropy is an excellent cause, resting upon well merited social principles; mixed with business it destroys itself, frequently destroys thrift, and jeopardizes equity.

Not only does cost accounting determine the profitableness of the particular account, but also makes it possible to evaluate the economic importance of an entire department or line of business. In a store, does the glove or shoe department pay the better? What type of freight, merchandise, or service is the most profitable? In a bank is it the commercial, savings, or trust department that should be most promoted? No man is apt to get far in these questions without a careful analysis of cost figures. In a given community the bank is in a position to obtain savings, commercial, and trust accounts. Which one justifies the greatest effort, the greatest initial expenditure? There is not a bank executive in the United States who is not called upon to define his policies in the light of the answer given to this question. The farmer wants to know whether he should raise more sheep, buy more cows, or plant more corn; the management of the gas plant wants to know

(Continued on page 382)

The Trust Company Division

Judge Fox in His Annual Address Gives an Estimate of the Potential Trust Business of the Nation and Reviews the Activities of the Department During the Last Year. W. S. McLucas of Kansas City Is the New President. Resolutions Adopted.

SO enormous is the potential trust company business, said Edward J. Fox, president of the Trust Company Division in his annual address, that if it were offered in its entirety to trust companies and banks having power to receive, there would not be facilities to meet the demand.

The address delivered at the opening of the Trust Company meeting in the Rice Hotel, Wednesday afternoon, Oct. 26, first indicated the amount of funds in the care of trust companies and recalling recent warnings against over-extension of industry or business, he said it might not be amiss to give thought to the warnings. In part, Judge Fox spoke as follows:

THE trust companies of America, irrespective of the national banks, have \$19,000,000,000 in their care. The Federal Trade Commission, in its recent report, stated that all trusts, including religious and benevolent organizations, educational institutions and foundations, community chests and public trusts, amount to \$15,000,000,000. These trusts are the legitimate offspring of the trust idea which began with the creation of the first trust company chartered in New York City more than 100 years ago.

The care and custody of these funds, invested, as they are, largely in securities of this country, imposes a tremendous responsibility upon the trust companies of our country. During the recent months, when securities have reached the highest market prices in their history, there have been a number of timely warnings against over-extension of industry or business. It might not be amiss in the midst of our great prosperity to give thought to these warnings.

We must not forget that proper investment in sound securities keeps the life-blood of business flowing properly. Speculative investments may eventually result in disaster and should be discouraged. Great national and industrial wealth results in great wealth for the individual, and this in turn brings upon the corporate fiduciary, the task of protecting and conserving that wealth intrusted to us for safekeeping and management, both during the life of the owner and after his death. Problems confronting the institutions which we have the honor to represent are increasing, but I believe that they



W. S. McLucas, Chairman of Board, Commerce Trust Co., Kansas City, Mo., Incoming President of Trust Company Division.

are being solved by them with greater efficiency and greater devotion to duty than ever before, and that the confidence placed in trust companies of the United States today as shown by an ever-increasing clientele is due to the splendid service being rendered.

The nature and form of trusts is constantly changing and developing. One of the most recent developments is the investment trust. In the past five months ninety-five of these trusts have been created with assets of \$400,000,000. I can conceive how these trusts, if properly conducted and managed, may be desirable, but there is danger in the possibility that they may be improperly managed and may include securities which are not proper investments for trust funds. Our problem should be so to safeguard this form of investment that it does not fall into the hands of either incompetent or dishonest promoters.

The year just closed has been a busy one in our Division. I will summarize briefly some of the activities which have engaged

our attention. Scarcely any of them are new. They are a further development of work which we have set out to do, and all branches of which show progress.

One of the first activities undertaken when the Division was reorganized some years ago, was that of publicity and advertising. The personnel of the Committee on Publicity during the past eleven years has been almost without change. The accumulated experience and knowledge of this Committee has made it an invaluable one in the development of trust business. Under the masterly management of Mr. Sisson, its chairman, and working steadily month by month, without ostentation, this committee has produced advertising material which will have much to do with the rapid development of trust business throughout the United States. A permanent record of the work of the committee during the past seven years may be seen in the newly published book "Fiduciary Advertising." I commend its use to every corporate fiduciary in the United States and I believe it will greatly assist in securing new business and at a minimum cost.

To those of us who are familiar with the admirable way in which the services of trust companies were advertised in the leading magazines of the country during the National Publicity Campaign, 1920-1925, it is a source of keen regret that sufficient financial support by trust companies generally throughout the country was not accorded to the committee in its efforts to continue the campaign. We see constantly how other branches of business recognize the value of impersonal or group advertising. We are not making use of our opportunity.

During the past year, under the able direction of Judge Hennings, chairman of our Committee on Insurance Trusts, the work of cooperation between insurance companies and trust companies has proceeded in an orderly and effective manner. This is undoubtedly one of the most important developments in trust service today. The people of America should be thoroughly informed as to the value of insurance and trust service combined. The work is developing steadily but the field has scarcely been touched, except in our larger cities.

This branch of service affords a wonderful opportunity for trust companies.

One of the difficult problems confronting the corporate fiduciary is the determination of proper charges for services rendered. The fear in the minds of the general public that the naming of a trust company to administer an estate is a more expensive method than the appointment of an individual, is one of the obstacles which we constantly encounter.

W. J. Kommers of Spokane says that the nominal charge for trust service is one of the points which should be emphasized in trust advertising.

Costs and Charges

OUR Committee on Costs and Charges has been giving serious and careful attention to this important phase of our work. At a conference of this committee a full discussion of fees has resulted in a further investigation, the results of which, when released, will aid trust companies very materially. In most businesses today, charges are based upon cost. It is comparatively easy for a manufacturer of a commodity to ascertain what the cost of manufacturing is and to place his selling price sufficiently above the cost price to receive a proper percentage of profit. In rendering trust service, however, and particularly with the intricacies which enter into the administration of estates and trusts, it is very difficult to ascertain their exact cost and estimate a fair and proper charge under all circumstances. Since the last annual convention, our Committee on Costs and Charges, under the able guidance of Arthur V. Morton, has been making definite progress toward ascertaining scientifically the cost of accepting, administering and closing various forms of trust services.

During the past year, forty-seven state legislatures have convened. We are fortunate in being able to report that no drastic legislation has been placed on the statute books of any state. There have been some attempts made to pass legislation curtailing the freedom of corporate fiduciaries in seeking or administering trust business, but such bills have either been withdrawn or modified so that they did not prove harmful.

The Chairman of the Committee on Protective Laws handling state legislative matters has filed a report which reveals how alert and efficient this committee has been during the past year.

Under the guidance of Mr. Osgood and his committee, the troublesome question of taxation has been handled in the best possible manner and progress has been made in connection with the changes it desires to accomplish. The program of work of that committee calls for much effort during the coming months in assisting the many agencies now cooperating in an endeavor to effect the repeal of the Federal Income Tax.

Colonel Fries, an honored and beloved ex-president of this division, and the able chairman of our Committee on Legislation, has been working on several important phases of Federal legislation, in close cooperation with the General Counsel of the Association, whose advice has been most helpful. A test case on one section of the Revenue Act is now being instituted through this committee, with the financial assistance

of members of the division. Able counsel have been retained and we hope for a favorable determination of this suit.

Relations With the Bar

OUR relations with the legal profession are on a much better basis than that which prevailed some time ago. Any attempts which were made to curtail the activities of trust companies were the result of improper appreciation of the character of the service which trust companies are rendering to the public. With a better understanding of the methods employed by trust companies in the administration of trusts, and with the dissipation of the idea that there is any real or intended antagonism, the spirit of cooperation between the bar and the fiduciary is now happily established in most jurisdictions. Mr. Griswold, chairman of our committee on Cooperation with the Bar, and who was a successful lawyer before entering the trust field, has been guiding with a great deal of success, the work of that committee.

Mr. Roseberry of Los Angeles, the efficient chairman of our Committee on Research, has been diligently gathering together very important information relating to trust companies and the administration of trusts.

Since the enactment of the McFadden Bill, giving permanent form to our Federal Reserve System and making other changes in the banking law coincident with the passage of the bill, our Committee on Relations with the Federal Reserve System, is finding the need for its services less important. Before it was determined that the system could be maintained, this committee directed by Mr. McLucas, carried on a nation-wide campaign, keeping before the 1600 eligible non-member trust companies the benefits to be secured by affiliation with the system and urging membership. It is believed that this has had a definite place in shaping favorably public opinion toward the system and its operation.

The committee has suggested that there is no longer any necessity for maintaining its existence, but I am not convinced that this is true. At a convention of the representatives of the various banking departments of the several states held in Richmond recently, a very able paper was read by the Honorable Peter G. Cameron, secretary of Banking in Pennsylvania, in which he pointed out that apparently there had been, since the passage of the McFadden Bill, a disposition to discriminate against trust companies organized under state charters and to accord special privileges to national banks. Whether this accusation is or is not well founded, I suggest that it would be well for our committee to be continued for the purpose of safeguarding the interests of trust companies which are members of the Federal Reserve System. They should be, in all respects, on a parity with the national banks.

The Committee on Review and Survey of Trust Securities, under Mr. Wilson; the Committee on Staff Relations, under Mr. Kingsberry; and the Committee on Community Trusts, under Mr. Littleton, have made progress and have submitted reports on their activities.

The organization of corporate fiduciary

associations in connection with state banking associations throughout the country, has been progressing during the past year. These new centers of activity will be helpful in enabling trust companies to discuss locally the problems arising in the operation of their business and the introduction of new ways and means for improvement for the benefit of all. The Mid-Winter and Regional Conferences inaugurated by the Trust Company Division some years ago, have been held during the past year with increasing attendance, and much greater interest. During the year just closed, two conferences were held on the Pacific Coast and two in the mid-continent section.

I have attempted to cover briefly the principal activities undertaken and carried on by the division. The potential trust company business of the country is so enormous that if it were offered in its entirety to trust companies and banks having power to receive it, there would not be facilities to meet the demand. With the constant iteration of our offer to serve and the increasingly imposing record of trusts well served, it is reasonable to believe that in the coming year, there will be comparatively few people ignorant of the benefits to be derived in naming a corporate fiduciary and this in turn will result in popularizing still more, this form of public service.

L. H. Roseberry of Los Angeles, who was to have addressed the Division, was unable to be present, but his paper, given elsewhere in this issue, was read by Edward Elliott of the Security Trust & Savings Bank of the same city.

Underwriter Cooperation

THIS was followed by a discussion of the subject, "How the Insurance Underwriter Desires to Cooperate," participated in by George E. Lackey of the Massachusetts Mutual Life Insurance Company, Oklahoma City, Okla., and by Guy MacLaughlin, Franklin Life Insurance Company, Houston.

"I do not think it is a practical idea for the average life underwriter to try to get into all of these various phases of administration of estates," said Mr. Lackey.

"I have been dodging the issue by allying myself with good trust companies, with good accountants, with good lawyers, with good tax people. I let them do my heavy work. I go out and bring these people in.

"I don't know how well departmentalized your institutions are, but there is a great army of anxious, willing workers in the life insurance fraternity who will work for you if you lend them a cooperative plan and work with them and tell them how to work. I have heard some criticism not only in my own company's legal department, but in others, indirectly, of the lack of uniformity in trust agreements. May I hand you this as a friendly suggestion. There is a means by which you can familiarize yourselves with the requirements of all of the leading life insurance companies, and if you will set up such a file in your office when you trustee a bunch of life insurance policies, you can read and understand what that particular company wants, comply with that request, and the companies will warm up to

(Continued on page 385)

The Investment Trust

By EDGAR LAWRENCE SMITH

President Investment Managers Company, New York

In Considering Organizations Under the Title of Investment Trust There Should Be No Abandonment of the Standards Which in the Past Have Enabled Bankers to Distinguish Between Sound and Unsound Undertakings. Where Danger Lies.

NO institutions are more favorably situated to exercise sane control over the development of useful investment trusts in this country than are the trust companies.

A trust company comes in contact with the investment trust at the time of its organization, when its organizers may still be advised and guided. Most investment trusts require the services of a trust company as trustee or custodian for their holdings of securities. As trustee, or as registrar or transfer agent, the name of a trust company is likely to appear upon the circular issued by an investment trust to the public. And it is incumbent upon trust companies to make sure, so far as they are able, that their names do not appear upon circulars describing investment trusts whose activities are likely to prove of doubtful service to investors.

It is not to be expected that the responsible officers of all trust companies will reach similar conclusions as to the type of investment trust that is to be preferred above other types. No rigid formulas can be supplied, no measuring rods nor acid tests which will automatically separate the useful investment trusts from those of less worth. Each one of us, then, must give sufficient thought to the subject to establish his own standards of comparison.

This is a difficult task if we focus our attention upon the multiplying details of the new offerings which seem to appear in endless procession day after day. On the other hand, if we ignore the details and examine the situation broadly, we may regain confidence in our ability to form sound judgments by finding ourselves, after all, upon more or less familiar ground. Perhaps we may find that it is the use of the term "investment trust" that is new, and that many of the essential functions of organizations using this title have long had their counterparts in American financial organization. Whenever funds, assembled from a large number of investors, are not employed directly in the financial structure of an operating company, the intermediate structure is likely to present some of the aspects of an investment trust.

Newly Organized Investment Trusts

SUCH an intermediate structure is to be found in public utility holding companies, which in a sense are investment trusts designed to serve specific purposes. These purposes are economically sound, and justify the creation of the holding companies. But some of the practices which

have grown out of the opportunities for financial manipulation presented by the structure of the typical holding company cannot receive unqualified endorsement. They suggest one point of view from which we may be called upon to scrutinize the structures of some of our newly organized investment trusts.

The holding company is only one of a large number of institutions which for many years have stood between the investor and the field of investment in which his funds are actively employed. Varying widely in structure and purpose, all of them render some service to the investor as a justification for their existence. For example, the Alexander Fund has been faithfully serving investors in Philadelphia as a true investment trust for a period of twenty years, yet only in the last year or two has it been called an investment trust. For over sixteen years a similar fund has been managed for the benefit of the employees of a large electrical equipment corporation. Insurance companies have lately been styled investment trusts, as have the security companies attached to some of our banking institutions.

Pioneers in Mortgage Loan Field

THEN we have had institutions such as the Mortgage Bond Company of New York, following a precedent established by the United States Mortgage Company, which commenced business under a charter granted in 1871. This charter in turn was based upon an earlier European model. These companies engaged in the business of making mortgage loans and depositing them with a trustee as collateral for bonds issued to the public.

Other organizations may be mentioned without exhausting the list of institutions long familiar to us which have some attributes in common with the investment trust—as, for example, the Asset Realization Company and the American International Corporation. But in the background there have been in quiet operation for a long time, in Massachusetts and elsewhere, personal property trusts which conform more closely to the idea that is coming to be recognized as the true picture of the investment trust.

It is apparent, then, that the words "investment trust" need not give us the impression that in considering an organization operating under this title we must abandon the common sense standards which have in the past enabled us to distinguish between sound and unsound undertakings. Financial and investment requirements have not changed over night. Much less has human

nature changed. A new organization calling for public support, no matter by what name it may be called, must have within it the essentials which we have been accustomed to demand in other organizations similarly seeking such support.

Technical knowledge of the economics underlying investment may be broadening under the impulse of research. And this changing knowledge may call for new organizations, better adapted than the old to apply its principles, under proper safeguards, to the funds of investors. But these new organizations cannot be relieved of the responsibility of conforming to certain fundamental criteria based not upon new or complicated theories, but upon sound, common sense and an understanding of the opportunities which a loosely drawn financial structure offers to unscrupulous or ill-advised promoters.

What, then, are some of these criteria, and how may we apply them in appraising an investment trust?

First of all, an investment trust must serve a purpose useful to the investor.

In reading the prospectus of a trust, it is well to form an opinion on this point at the outset. To many it will appear that the most useful purpose an investment trust can serve is to create an organization through which men of wide experience in the investment world, supported by a strong technical organization, may apply sound principles of investment management to the funds of numerous investors, upon terms that will adequately compensate them for this management, yet will leave to the investor not only a fair return on the capital he has provided, but in addition a reasonable share in the profits of management.

In studying an investment trust, then, we should first try to determine whether the organizers are principally concerned with providing sound investment management upon reasonable terms, or whether evidence is to be found that this is a secondary consideration, and that the organizers are in reality taking advantage of the present enthusiasm for the words "investment trust" with the object of making quick and disproportionate profits for themselves at the expense or at the undue hazard of the investor.

British Reliance on Character

HAVING decided that the purpose of the trust is useful, it is appropriate to consider next whether its management is competent to achieve this purpose. Is the management such that we would be willing to

entrust our own funds to its care? This means that we must be confident not alone of its competence, but also of its sincerity and integrity. Perhaps it will come about here as it has in Great Britain. After many sad experiences, the British, in appraising the merit of an investment trust, have learned to rely mainly upon the character and ability of the men behind it. Character, ability, common sense and conservatism on the part of the managers, combined with a broad knowledge of the field in which they operate, are essential to the successful conduct of an investment trust, as they are essential to the successful conduct of any other business or profession.

And here we have a difficulty, one of the great difficulties of the present situation. The investment trust has become popular. Security houses throughout the country are besieged by investors who wish to put some of their money into an investment trust. It naturally occurs to almost everyone of these houses to organize an investment trust of its own. But dealers in securities are not necessarily the ablest conservators of capital. Countless trusts are being formed by persons whose intent is sincere, but who have not had wide experience nor taken the time to study the experience of others in the management of investment portfolios. We cannot judge any of these too hastily because from among them may grow many useful trusts. It is inevitable, however, that a fair proportion of the investment trusts organized with the best intent, but with an insufficient background of financial experience, will in the normal course pass into oblivion.

In saying this, we need draw no distinction between investment trusts and other forms of organized effort, for every year a great many corporations disappear which were organized with high hopes of success. That this is so is no reflection upon the character of the individuals who promoted them nor upon the institution of corporate organization. It is merely unavoidable in human affairs. It is the way of nature. But so far as each one of us is able, when called upon to investigate a particular investment trust, it seems important that we should become satisfied as to the character of the management and as to whether it has the experience and conservatism to serve investors to their advantage and without hazard. The steps to be taken in this respect are similar to those of the usual credit investigation.

After satisfying ourselves with regard to the character of those who sponsor an investment trust, we may next consider the field of investment in which it proposes to operate, and this is to be considered in its relation to the experience and capacity of the men who are charged with its management. An investment trust should operate in a field wide enough to provide ample diversification and to permit the shifting of funds from one industry or class of securities to another, so that, when one industry or class of security furnishes a less favorable opportunity for investment than another, funds may be transferred from the less favorable to the more favorable.

Systematic Revision Needed

OUR present subject does not include a discussion of the principles underlying sound investment management, but a quota-

tion from an annual report of the Carnegie Corporation will perhaps suggest that frequent changes in the holdings of any fund which is kept under constant, informed supervision, are essential. It reads as follows:

"The funds of a great endowment can be kept intact only by a systematic revision month by month of all securities of the endowment and by a continuous process of sale and exchange as circumstances may affect the financial soundness of this or that security."

The essential service of an investment trust is to make available to investors generally the type of investment management suggested by this quotation.

Moreover, if the field within which an investment trust is to operate is unduly restricted, the very success of trusts which may have adopted the same field, coupled with the interest their activities may arouse among other investors, will tend to raise the price of securities in the restricted field to a point where they cease to be attractive or even sound investments. In other words, by restricting their field too narrowly, they become defenseless against the unfavorable market situation which will inevitably result from their own success. Such a dilemma is already apparent in several groups of securities in the American market, and parallels a similar dilemma which arose at a time when British enthusiasm for investment trusts exceeded all reason. This period commenced in 1889.

Appraising Soundness

IN appraising the soundness of an investment trust, then, one cannot neglect to consider the effect upon the security market of its own activities, should they attain to any great proportions. This applies not alone to investment trusts operating in a limited field, but also to those instrumentalities which are devoid of any pretense at management and represent interests in an unchanging list of securities. These are the fixed list, bankers share, or trustee share units. If, under the skilled advertising methods sometimes employed in distributing these instruments, ever greater sums are collected for investment in a fixed list of stocks, it is not hard to see how the floating supply of some, if not of a majority of stocks in the fixed list will become so depleted that further purchases can be made only by paying exorbitant prices. This is the more likely to happen in that the same securities appear in the fixed lists of several organizations conducting national campaigns for the distribution of their units. There is no denying that a participation in a fixed list of securities is the easiest thing to sell. We can, therefore, await with lively curiosity the cumulative effect of the activities of this group upon the market for certain popular securities.

Let us, however, return to the serious consideration of the investment trust which is designed to apply management to the funds of numerous investors. After ascertaining that the trust has a wide enough field in which to operate effectively, strangely enough it may be desirable to learn whether or not this field has any limits. Some have argued that there should be no limits to the field in which a given investment trust may operate, and no restrictions upon its management, if that management can qualify under the high standards which have been sug-

gested as essential. And a very fair case can be made for this view.

Yet an investor is entitled to know that the field in which an investment trust operates bears some relation to the extent of the knowledge and experience of its managers, and to the size, character and effectiveness of the technical organization which they command in the management of the trust. If the field is worldwide, one must know that the trust operating in this vast arena has an organization conversant with the security markets of the world, and that the men supervising the management are competent to act wisely upon the advice of this organization. There are advantages to be gained by transferring funds at intervals from the investment markets of Europe to those of the United States or of the Far East. But this cannot be wisely undertaken by an organization which is not effectively operating throughout the world.

Similarly, within whatever field an investment trust operates, it is desirable to know that it has an effective organization competent to serve investors within the field it has chosen.

Finally we come to the question of whether or not the structure of the trust is sound. This is so often given precedence in the discussion of investment trusts that what we have suggested as the more vital considerations are neglected. After becoming satisfied with regard to the factors which we have already discussed, one might be tempted to take it for granted that the structure of the trust under consideration would be sound, because men who deserve to be entrusted with the responsibility of managing the funds of others are not likely to lend their names knowingly to an organization whose structure does not provide proper safeguards for the investor. Such men do not wish to profit at the expense of others, much less to manage the funds of others upon the contingent basis of sharing disproportionately in the earnings or profits remaining after a conservative return has been paid on the capital provided. Such a basis has in the past encouraged speculative practices that have not always proved successful. If they themselves have not provided a substantial fund as a protection to investors, they will require only adequate compensation for services rendered. They may differ as to the manner in which they should receive this compensation, but on the whole one would not expect their charges to be exorbitant.

Each Structure On Its Merit

WE might, then, say to ourselves: "We are satisfied with the management—let us give them free rein to invest as they will and to charge for their services as they see fit." But the history of finance in general and of the investment trust in particular suggests the prudence of adopting a somewhat less Utopian attitude. It was not investors in trusts with obscure directorates who alone suffered severely in 1891-1892 in Great Britain. Therefore, even though the character of management will always remain of first importance in the appraisal of an investment trust, its structure, as well as the restrictions imposed upon its management, must also be carefully considered.

So many variants have appeared in the
(Continued on page 412)

Pooling of Trust Investments

By L. H. ROSEBERRY

Vice President, Security Trust & Savings Bank, Los Angeles

The Plan Which Presumes That the Bulk of the Securities Would Be Stocks Calls for Change in the Common Law as Well in Public Opinion. The Settlement of One Trust Without Harm to Others in the Pool One of the Serious Problems to Be Met.

THE proposition of pooling trust investments is one which has undoubtedly intrigued the thought of most bankers at one time or another. Any constructive suggestion which relates to possible improvements in trust company service should be given due consideration and discussion, even if it implies changes in corporate fiduciary practice so radical as to frighten those who are conservatively minded, either by nature or by the training which goes with the banking profession. Trust companies are quasi-public institutions, and because of the very nature and magnitude of the trusts which are bestowed upon them, owe it to society to adopt every sound and proved method which will increase their efficiency or better their service.

It has been an axiom of trust company administration, almost from time immemorial, that individual trusts shall be kept separate and distinct from each other, without commingling of assets. This has been the common law in effect for several hundred years, later confirmed by statute in most if not all of the states of the Union. One of the firmest and most fundamental principles underlying trusts since their inception centuries ago, was the recognition of and strict adherence to this principle of maintaining the sanctity of identity as between individual trusts. The idea has, in fact, become so firmly inculcated in the minds of the public and trust officers generally that any effort to change the existing practice should not only be given the gravest thought and study, but would have to be preceded by cautious investigation to feel out the attitude of the public, and then, if adopted, be followed by carefully planned publicity calculated to revamp the now popular ideas concerning the administration of trust assets.

Difficulties of a Change

IF we should assume for the moment that it would be found advisable to adopt the policy of pooling trust investments, in whole or in part, issuing participation certificates to the various trusts for their proportionate contributions to the pool, the practical difficulty of overcoming the previous law and traditions to the contrary, revising and amending the statutes of the various states, and completely revamping public opinion, would be a formidable task which it would take years to accomplish, if in fact it could ever be accomplished successfully. There is a grave danger, too, that any attempt on the part of the trust companies to bring about such a radical change in practice

might at once arouse that suspicion or shade of doubt in the public mind which trust companies have so religiously and successfully guarded against thus far.

The idea of pooling trust investments undoubtedly originates from the investment trust, which has had some vogue in Great Britain and, more recently, in this country.

The theory of the investment trust, of course, is that it permits small individual investors to enjoy the safeguards or the profits of widely diversified securities. The investment trust was devised primarily for the handling of stocks, which by their nature are subject to fluctuation. Proponents of the investment trust idea assume that there shall be losses on some of the securities in the portfolio, but frankly state that they expect such losses to be outweighed by exceptional profits on other investments in the portfolio.

Objectionable Premises

HERE we have two premises, that of possible losses and that of occasional speculative profits, that are repugnant to good trust company policy. One of the fundamental principles of trust company management is that there shall be no losses, and because of the nature of the securities which must be selected to maintain this ideal, it follows that only occasionally will there be any speculative profits, nor must any such be expected.

The investment trust is a device for dealing in stocks, many if not most of which are frankly speculative. Trust companies, generally speaking, deal not in stocks but in bonds and mortgages, and purposely select securities which have the minimum of fluctuation in order to secure the maximum of safety. The theory of the investment trust is that fluctuations will be ironed out by diversification and the law of averages. The theory behind trust company investment is that there shall be no material fluctuation. The two ideas are fundamentally different and always will be, because the objects to be accomplished, and the necessary methods of accomplishing them, will always be different.

The investment trust idea presumes that the bulk of the securities will be stocks. The statutes of most states dictate that trust funds shall be placed in public bonds or secured obligations of various kinds, instead of in stocks. While in some states stocks are "legal," the trust companies in such states are cautious about investing trust funds in them. If we are to adopt the investment trust plan, it seems to me that we must admit that stocks are better in-

vestments than bonds, when diversified, and then go about changing the common law and public opinion, which has been developed after years of education and persuasion.

The ideal trust policy does not admit of losses, but ideals are not always realized to perfection. However, a survey made by the Committee on Research of the Trust Company Division, American Bankers Association, in December, 1923, under its Questionnaire Number Four, and which covered a period of twenty years, developed that there had been no losses actually suffered by the beneficiaries of any trust administered by American trust companies during that time. Such small losses as are experienced are at once absorbed by the trust companies themselves. In so far as there are no losses, the plan of pooling investments to prevent losses would seem to be wholly a moot and not a practical question. The laws, practices, procedure and methods of trust companies are being rapidly perfected to further minimize any chances of losses to trust funds administered by trust companies.

Great Britain's Experience

THE idea of pooling trust investments is another form of introducing the practice of permitting the trustee to purchase, with trust funds, beneficial certificates or shares in investment trusts; in other words, to create a new classification of securities or investments for trust funds. It is doubtful whether the history of investment trusts will justify legalizing certificates or shares in these trusts for trust company investment. Much stress has been laid on successful investment trusts in Great Britain, and proponents of the idea that they should be made legal for trust company investment in this country intimate that such trusts would be managed on the same conservative basis as the successful ones in Great Britain. We must not forget, however, that many of these British trusts have failed through lack of proper investment conditions or because of improper or incapable management. Apparently the investment trust gives rise to many temptations and the human equation is uppermost, which is objectionable from the standpoint of a trustee. One can easily understand that the man who is charged with selecting securities to go into the investment trust portfolio can very readily fall into the careless habit of assuming that any losses will be unnoticeable when thrown into the general average, and, in fact, this has been the history of many such investment trusts here and abroad. Trust company invest-

(Continued on page 420)

The Clearing House Section

Discussions Showing That the Clearing House Associations
Constitute the First Line of Defense Against Questionable Bank-
ing Practices. Progress of the Section's Work as Indicated by
Reports. Governor Ben Paulen of Kansas a Speaker.

BESIDES the three program speeches before the members of the Clearinghouse Section at its annual meeting in Houston, Governor Ben Paulen of Kansas made an impromptu address.

The three on the program were C. A. Chapman of Rochester, Minn.; Fred W. Ellsworth of New Orleans and J. S. Love of Jackson, Miss. Their addresses are given elsewhere in this issue. Governor Paulen said in part:

"Several of my friends asked me how it happened that I was elected governor of the state of Kansas while I was actively engaged in the banking business. I think perhaps the main reason the people of my state honored me by that office was because my predecessor made a football of the banking department. It was full of politics. I have never believed that politics should enter into the banking department of Kansas or any other state, and I made a promise to the people of my state that if I was elected their governor, I would divorce the banking department from politics. I have endeavored to do that. We secured the passage of a law which provided for a banking board. The legislature of Kansas is, as you know, strongly Republican. Several of the partisan Republicans insisted that that should be a partisan board. I told them that I did not want them to say it should be a partisan board or a non-partisan board, but simply create a board of a certain number of members and I would appoint a banking board to work in conjunction with the bank commissioner of Kansas, and I would guarantee to them that within one year after that bill became a law, the people of the state, regardless of politics, would be free to admit that the banking department of Kansas was not a political machine.

"The bill was passed. It was my pleasure to appoint on that board, four members. I appointed two men who were supposed to be Democrats and two men whom I knew to be Republicans. The banking board was organized, with the bank commissioner as the fifth member, and they have functioned well.

"During my campaign for a second term, I am positive that the result of that one action had more to do with my majority than any other one thing. Naturally, I am more interested in banking than any other profes-

sion or occupation. I have been engaged in the banking business in my state for a number of years, and I was actively a country banker when I was nominated for Governor of Kansas. Having served as president of the Kansas Bankers Association, I was dubbed by my opponents as a plutocrat who did not understand the needs of an agricul-

"I do not have any sympathy with the man or the woman who is not willing to give his time and his talents and his money, if necessary, to make the place he calls home the best place in the world. It is your duty as an individual, as a citizen, as a banker, to be on the right side of every civic movement in your own community. I

do not believe you will lose customers by taking a positive stand.

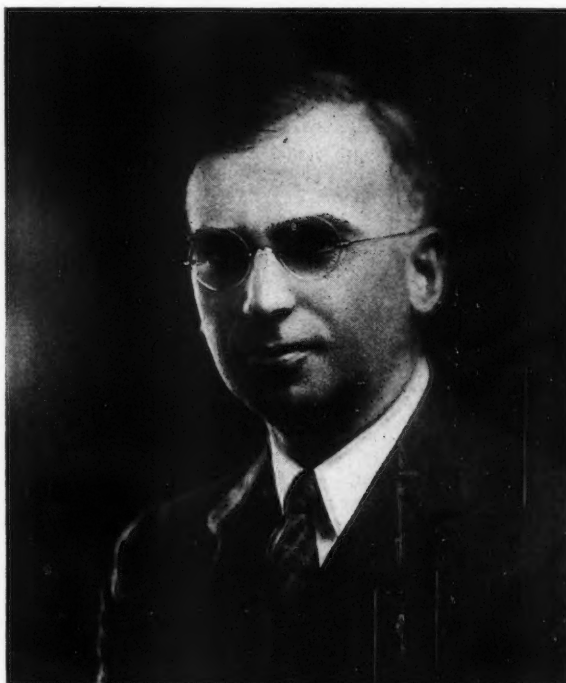
"The bank with which I am connected has long enjoyed the confidence of the people of the community, for they know that regardless of any project mentioned in Wilson County, the very first question asked is, 'What position will the Wilson County Bank take?' I believe that as bankers we should get our institutions in that kind of position. I do not mean political—not always, but I do mean that the bank with which you are connected should be a positive force in the community in which you operate, and if you cannot mold the influence of your community or help to do it, then I do not believe you are operating the kind of bank you are capable of operating.

"I sometimes wonder if those of us who are engaged in that profession are proud of the fact that we are in the banking business. If you are not, men and women, my advice would be to you to sell out your bank and get in some business you like, because I know you cannot make a success of any business unless you are thoroughly in love with the business in which you are engaged.

"Personally, I think the banking profession is the greatest profession in the world, and I am proud of the fact that I am in that profession. As long as I am a banker I want to do everything I possibly can to encourage the bankers of my state and of the nation to be more efficient, to wield more influence in their communities, to stand for the things you know you should decide, it is a very easy matter to know whether we are on the right side or the wrong side of things. If you will endeavor to do that, I am sure that the bank with which you are connected will be an institution worthy of the name.

"I hope when you go back to your respective homes after this wonderful meeting in this delightful city of Houston, you will go home with the idea that your insti-

(Continued on page 360)



O. Howard Wolfe, Cashier, Philadelphia-Girard National Bank, Philadelphia, Incoming President, Clearing House Section.

tural state like Kansas. Yet I had lived in that state for fifty odd years, and I knew something about the wants and the needs of the people of that state.

"I believe that the bankers all over this nation do not pay enough attention, not alone to politics in their own localities, but to the different things that come up in their communities. We are too afraid that if we take a stand on one side or the other we might lose an account here and there. I believe that is the wrong attitude to take. The bankers in any community can mold the opinion of that community easier, quicker, and more surely than any other profession in that community, and I think it is your duty as bankers to take a positive stand for everything that will be for the betterment of your community.

Over 400 Clearing Houses

By JOHN R. DOWNING

President Clearing House Section and Vice-President Citizens Union National Bank, Louisville, Ky.

The Credit Bureau Designed to Make the Way Difficult for the Duplicate Borrower and Other Activities to Add to the Safety and Efficiency of Banking. Clearing House Examiner System Organized in Northern Nebraska and State Official Assigned.

THE Clearing House Section of the American Bankers Association was not and is not merely a loosely formed organization of independent clearing houses, but rather a laboratory to which are referred the multifarious problems that arise from time to time in banking as well as the unsolved questions of procedure which we have with us from year to year.

Shortly after the adjournment of the Los Angeles Convention a meeting of the officers of the Section was called at headquarters in New York, where we adopted a plan of procedure and selected as our slogan: "Better and Safer Banking."

Briefly, the result of that session was the adoption of a platform of procedure:

To extend the scope of clearing house organizations, adding to their number and making more effective those already organized; to install credit bureaus; to evolve an ideal set of rules and regulations to govern clearing houses; to insist upon the importance of analyzing bank accounts of all kinds; to recommend an assessment of an equitable service charge against unprofitable accounts; to bring about the uniform use of standardized checks, drafts, vouchers, etc.; to recommend a uniform negotiable warehouse contract and a warehouse receipt which could be accepted at its face value; to prepare a revised edition of financial statement forms of all kinds, and to especially cooperate with the National Association of General Contractors on a uniform statement for contractors of all kinds; to make a national survey of payroll problems; to study the question of escrow and custody charges; to have prepared a comprehensive analysis of distribution of banks' gross earnings in relation to overhead and other charges, with the eventual hope in mind of recommending a form of budget for banks of all sizes; to bring about better examinations from within by lending aid and encouragement to organizations of auditors and comptrollers.

Last, but not least, the extension of clearing house examiner systems not only in the larger cities but in the smaller communities, through organization by districts, with an examiner in charge and responsible for a particular section or district.

Over 400 Clearing Houses

THE Committee on New Clearing House Associations, under the leadership of Chairman H. Y. Lemon, prepared an interesting and appealing brochure on "Why a Clearing House Association?" clearly setting forth the advantages accruing to banks

from clearing house association work, and how to organize and successfully operate an association. The states were divided into four major districts, each with a general chairman who, with the cooperation of our state representatives, waged a successful campaign for the installation of new clearing house associations, both city and county type. As a result, seventeen new associations were organized, bringing the total number of associations in operation, for the first time in banking history, over the 400 mark—or, to be exact, 406, with many more in process of formation.

Our Committee on Credit Bureaus, W. F. Augustine, Chairman, likewise made a study and survey of city and county credit bureau work, designed to head off "Mr. Duplicate Borrower." Their report, which sets forth clearly the most successful types of credit bureaus, with detailed explanation for organization and operation, has already stimulated interest in credit bureaus, resulting in the installation of this valuable clearing house feature in numerous county bankers associations and local clearing houses.

Wide Interest Shown

PERHAPS no feature of our work has elicited such a widespread interest. Active organizations are reported in practically every state. The number is being added to almost daily, and in many cities and communities where they have been unable to organize a regular examiner system they have availed themselves of this opportunity to bring about better cooperation with reference to extension of credit. I quote from the report of the committee, submitted at Hot Springs:

"In a certain county where a credit bureau was installed this year, the following interesting and amazing facts were brought out:

844	customers borrowing from	2	banks
263	customers borrowing from	3	banks
51	customers borrowing from	4	banks
15	customers borrowing from	5	banks
5	customers borrowing from	6	banks
1	customer borrowing from	7	banks
1	customer borrowing from	9	banks

"How a customer could successfully borrow from nine banks at the same time is a mystery, and should qualify him as an expert in financial legerdemain. We will venture no explanation of this feat, but we do know that such situations are causing bankers everywhere to sit up and take notice and to be active in taking steps to safeguard banking against this evil through the instrumentality of a credit bureau."

A. G. Biggerstaff, Chairman of the Committee on Clearing House Rules and Practices, reports that his committee spent sev-

eral months in making a survey and study of the articles of association and rules and regulations used by clearing houses throughout the country, and from this study and the consensus of opinion of leading bankers and clearing house managers from all sections of the country selected the best and most successful practices in general use, and from these data prepared and issued in pamphlet form what is known as Standard Articles of Association, Rules and Regulations for Clearing House Associations. This pamphlet was sent to all clearing house associations as well as to those planning to organize, and has met with enthusiastic approval and has already resulted in bringing about greater uniformity of regulations and efficiency of service.

No activity of the Section has enlisted a more lively interest than the pamphlet issued by our Committee on Analysis of Accounts, of which O. Howard Wolfe is Chairman. This booklet was prepared to meet a widespread demand for information and suggestions as to cost accounting, particularly meeting the needs of smaller banks which in recent years have been confronted with the necessity for analysis, due to constantly increasing overhead and other costs. The enormous demand for this booklet indicates that the rule-of-thumb day in banking is gone. Banking economies demand that profit and loss elements be definitely determined and allocated in order that remedial steps may be taken to stop leaks and losses. As a result of analysis of checking accounts, made by thousands of bankers, equitable service charges have been made by the banks in over 1000 cities and towns, as well as by hundreds of county bankers associations. In this work the important step is to educate the banks' customers that the plan is reasonable, fair and just. To assist in this feature the Clearing House Section issued a folder setting forth in an interesting manner a "Conversation between a Depositor and a Banker Regarding Service Charges on Unprofitable Accounts." Over 150,000 copies of this pamphlet alone have been ordered by banks for distribution among their customers.

Standard Check Campaign

OUR Committee on Standardization of Checks, under the leadership of Chairman Dunbar, has conducted a vigorous campaign for the universal adoption of the sizes and uniform face arrangement agreed upon at the National Conference on this subject, instituted by the Clearing House Section last

(Continued on page 415)

Selling Banking Services by Cooperative Advertising

By FRED W. ELLSWORTH

Vice-president, Hibernia Bank and Trust Company, New Orleans, La.

Now that the Major Facilities of Practically All Up-To-Date Banks Are the Same, Banks Can Increase Their Use By Joint Advertising. How the New Orleans Banks Inform the Public of How They Can Serve It. Results Obtained Have Justified Plan.

MODERN banks, by constantly adding to and improving their functions and by the inexorable urge of competition, are gradually but inevitably standardizing their service so that the average customer can now be sure of adequate and competent attention regardless of the bank that he chooses.

As concrete evidence of this standardization, we find that the details of their major facilities have become common to practically all up-to-date banks. Each has its commercial department for the convenience of local and regional trade, its foreign department for international transactions, its savings department for the thrifty, its bond department for the investors, its vault department for the safe keeping of valuables, and its trust department for handling the fiduciary needs of its customers.

Bankers are familiar with these trite facts but the general public is not. Although millions use the banks, these same millions are largely unaware of the wide variety of invaluable services that are theirs for the asking. The savings depositor, as a rule, knows nothing about the checking account and its constant convenience; the commercial depositor, as a rule, does not know that "for less than two cents a day he can have his valuable papers safeguarded in a fire and burglar proof vault;" the patron of the foreign department, as a rule, has not the faintest idea that the trust department can save him time and money and worry today, and assure his loved ones a dependable competence tomorrow.

The Banker's Fault

AND all this is our fault. We bankers have been so diffident about preaching the "gospel" of sound banking service that while there are millions who do use our facilities, there are also other millions who do not, but should, and not merely for the purpose of satisfying our selfish desire for more business, but because by such contact they are contributing to their own comfort and happiness.

True, in the last decade or two, we have enlarged and improved the broadcasting of our message. Thanks to the constructive educational enterprise of the American Bankers Association, the Financial Advertisers Association, and several high-class agencies that have specialized in financial advertising, our banks now are publicly tell-

ing their story far more consistently and persistently and effectively than ever before. And their recent remarkable growth, in part at least, can be credited to this intelligent publicity.

However, despite the present maximum efforts to sell banking service, we know that our people are not as thrifty as they should and could be, they use the bureau drawer and the pantry shelf far more than they do the safe deposit vault, and more than ninety-nine per cent of the people know little or nothing about the trust department.

What's the matter?

The World War, with its tremendous example of cooperative effort taught our people how to save as they never had saved before.

Money in the savings banks prior to the war was approximately \$4,500,000,000; today the total is \$9,500,000,000. This means of course, that the education in thrift by means of constant advertising produced greater results in a few years than were produced in all the century or more previously.

During 1918-19 our people saved, by means of Thrift Stamps and War Savings Stamps, considerably more than \$1,000,000,000, and this, of course, was made possible by concentrated and comprehensive advertising. But even with all this development, our people have on deposit in the savings banks barely ninety dollars per person.

Banking institutions have accomplished and are accomplishing a great deal by way of educating our people along sound economic, financial and fiduciary lines, but most of this advertising is essentially individual, and obviously for the plain purpose of building the business of the individual bank.

Continuous Advertising Program

IN various cities numerous efforts have been made by forward-looking bankers to get together on some form of advertising plan whereby the banks and trust companies, acting as a unit, could spread the gospel of intelligent, constructive thrift, and of beneficial fiduciary service.

A few of these efforts have been successful but none of them has been continued permanently. Unfortunately in some instances there has been failure principally because of local jealousies, or of improperly drawn basic plans.

In New Orleans, however, there exists a conspicuous example of what banks can do by actually getting together and coordinating in a big, broad way on a definite, continuous program. This New Orleans plan is achieving the five-fold purpose of: (a) Building mutual good will among the banks; (b) Spreading in the community the gospel of sound thrift and intelligent fiduciary banking; (c) Eliminating programs and practically all other undesirable "complimentary" advertising; (d) Saving advertising expense; (e) Producing substantial new business for the participating institutions.

Here is the way the plan operates: Each participating bank is represented by one of its officers on a committee known as the Associated Banks' Advertising Committee. This committee meets at lunch every Tuesday and swaps experiences had during the week with industrious advertising salesmen, discusses general policy, new plans, advertising copy, applications for so-called "complimentary" or "graft" advertising, and other essential details.

One of the members of the committee acts as chairman and another secretary, each of whom serves during "good behavior." The secretary makes a complete record of each meeting and sends to each member a copy, which ultimately is lodged with the advertising department of each of the respective banks.

The arrangement between the banks is quite informal and can be discontinued at any time, except in so far as the several banks are jointly obligated on contracts. And nothing in the arrangement interferes with or in any way affects the advertising policies of the respective participating institutions, or the individuality of their advertising. Nor does the arrangement prevent any of the banks from conducting whatever independent advertising it may desire to carry, whether it be on behalf of its savings department, its trust department, or any other department or feature of its service.

One Advertisement Daily

THE joint advertising in the New Orleans dailies appears according to a definite schedule, and one advertisement is published every business day in the year. Each advertisement occupies space of approximately 450 lines, or three columns in width by about ten inches in depth.

(Continued on page 428)

Restoring Banking's Prestige

By C. A. CHAPMAN

President, First National Bank, Rochester, Minn.

The City or District Clearing House System Will Eliminate Destructive Competition, Promote Public Confidence, Mobilize Community Credit and Forestall Objectionable Legislative Nostrums. Die-Hard Opposition Must Be Left Out of Account.

CITY and district regional clearing houses are voluntary associations built upon the broad foundation of professional solidarity, ethics, and common group interest. They are either formed out of institutions located in specific cities or out of groups of banks serving one or more counties, and they voluntarily undertake a number of indispensable functions which may be enumerated.

First, each association has a credit bureau wherein is centralized all detailed credit information covering the entire field of the association. This eliminates the former practice of duplicate borrowing and shopping by borrowers from bank to bank. It also centralizes information as to undesirable and unprofitable accounts.

Second, each association realizes that a safe and sound bank is one which is making liberal profits, otherwise it cannot sustain unavoidable losses. Each association, therefore, conducts a continuous analysis of profits, compensation, and expense in order to eliminate inordinate costs and discover deficiencies in remuneration for service.

Third, each association examines into and restrains destructive, cut-throat and predatory competition among its members. It discourages promotional banking and such practices as breed insecurity and hazard.

Acts as a Mediator

FOURTH, each clearing house examines into taxation, fixes the hours for doing business, and intermediates among the members whenever found necessary.

Fifth, it provides a system of examination carried out by the aid of an adequate staff of highly trained and broadly experienced bankers devoting their lives to the specialty of bank examination. For the use of these clearing house examiners and executive committee, there are weekly statements of resources and liabilities and operations in detail furnished by each member bank, together with copies of the reports of examinations of state and national bank examiners furnished with the consent of the examined banks and the supervising departments. In addition there is the central credit file and the central liability ledger consolidating all the lines of all the borrowers operating within the territory served by the member banks within the clearing house.

Sixth, directing the work of the clearing house examiners and determining policies and remedial measures, there is the executive committee of each clearing house association composed of five or more committeemen elected by the members of the association

for terms of years. It is the function of the executive committee to learn of abuses on the part of members, of disregard for the tenets of banking ethics and infractions of the rules of good banking practice or the employment of unsafe methods, and to make recommendations or apply remedies. To all of this the members voluntarily assent. This executive committee has the whole-hearted support and cooperation of all the members of the clearing house association who aid and assist the examiners in every way for the common good.

It Also Is a Stabilizer

SEVENTH, each association combats the organization of promotional banks or the creation of institutions for which there is no public necessity and continually brings its influence and prestige to bear on banks which do not comply with the best practice and ethics. The clearing house supports its members in adversity so long as they are able to marshal good assets and display the foundations for credit. It acts to stabilize and support the member institution until it is again able to stand in its own strength.

Eighth, each association presents to the public a solidarity in the banking group which invites and supports the public confidence. It is able to speak collectively and authoritatively to the public for its members and the profession as a whole, and to act instantly in emergency for the public benefit.

Ninth, it maintains the necessary systems of protection, and where necessary installs intercommunicating burglary-alarm systems, policing, transportation of money and securities, and, in general, presents a solid front to the criminal world with which it makes no terms and with which it will neither settle nor compromise even on restitution.

Tenth, it conducts continuous study through appropriate committees of all local conditions in which it participates, investigates new methods and new practices, and keeps itself abreast of the best banking knowledge applicable to the local needs.

Concluding the functions and accomplishments of this superlative system, let it be said that no depositor has ever lost a dollar through failure or insolvency of a member.

Millennium Not Yet Here

YOU are naturally surprised to thus hear that the millennium has come in banking and that ideal conditions are universal. They are not, it is true. I have painted with the brightest pigments gathered here and there over the entire country. I have

painted a horizon composed of the high peaks of the whole range of achievement. I have assembled as one composite, whole the disconnected and widely-separated accomplishments throughout American independent banking. Unfortunately there is as yet no coherence or integration. Still we ought to have them. We could possess both the mechanism and the spirit to use the mechanism if we really wanted them.

As a matter of fact, and on the contrary, we have been for six years past, and now are in a trying and critical situation. In many states we have been frankly told by the legislators, and in the nation as a whole it has been flatly declared by congressmen, that unless the bankers clean house and put themselves in order we shall no longer be allowed to run our own business unrestrained. Legislators declare that unless we organize and stabilize, they themselves will take a hand in the field of invention and experimentation in finance. They have already acted upon these threats in some quarters, and we have had to flounder in the immoral morass of bank guarantee with all of its false pretensions and its final complete failure wherever tried.

There has been something distinctly wrong with us in both spirit and material. In the seven years, including 1920 and 1926, 3124 banks failed out of a total of 30,086. Investigations have been under way under both public and private direction to learn the causes for this catastrophe.

The American Bankers Association has itself undertaken an investigation under the direction of O. M. W. Sprague, professor of banking, Harvard School of Business, and his report will soon be forthcoming.

With the subject of general economic conditions surrounding and underlying this period of failures, we shall for the moment do nothing but address ourselves to the faults which are self-contained within our own professional group.

Evils Still to Be Remedied

UNFORTUNATELY my first picture covered only a little portion of the situation, for there are approximately 400 clearing houses in the United States, and only a fraction of these employ special examiners. Outside these examiner clearing house associations there has been a holocaust of destruction. The total loss is believed by some authorities to exceed the total capital of the American banks as of 1919. What underlying causes exist for which we, ourselves, as bankers are responsible?

In the first place, we promoted too many

banks, especially in the agricultural districts. There were no clearing houses to oppose this promotional expansion. Bank equipment concerns looking for sales, promoters seeking funds to exploit, men hunting bank jobs, politicians cultivating voters, the public wanting more banks in which to duplicate, all combined to do their deadly work in the inordinate multiplication of banks.

The competitive situation thus created resulted in two great fears which in different degrees possessed all bankers. They began to fear their own customers, whose business they desperately needed to make their profit and loss accounts balance. They feared greatly their competitors lest they take this business away by bidding more for it in interest rates or free service. For fear these competitors would desperately beat them to the goal, they, themselves, did the dangerous thing first and loaned too much money on too little collateral.

Then, the "Great Freeze"

THE "great freeze" followed. There were too few clearing houses to furnish the prevention necessary to restrain this frightful situation, to eliminate the bad practices, and to discourage excessive, ill-advised loans, and unrestrained competition.

The absence of clearing house facilities resulted in rates of interest on time money running in some districts as high as 8 per cent, as well as uncovered loans on second mortgages, loans on contracts for deed, on option contracts, and on almost any sort of documents or interest or value however fugitive.

When these loans began to turn "sour," the banks followed them up hopefully and redeemed from foreclosures of prior mortgages and senior judgment claims. We soon beheld the spectacle of the entire capital and surplus, and in hundreds of instances a considerable part of the depositors' money represented outright by "other real estate" in bank statements.

Banking supervision got along the best it could, using compulsion where law infraction existed, and in addition whatever suasion it could muster to secure replacement through voluntary assessments of the destroyed capital and to eliminate the frozen assets. Supervision worked against the meddling of political intervention constantly sought by the banks which were under pressure, and it was remarkable that any measure of public confidence was retained at all. Public confidence seemed to be the most stable and secure factor in the entire situation. Very much credit is due the public for its faith and its restraint in the face of the situation through six gruelling years.

Cooperation Chief Need

FORTIFICATION against repetition of the experience is to be sought in a tremendous enlargement of cooperation among the bankers themselves. Scattered throughout our great professional group over the whole nation there is a positive opulence of experience, of special knowledge, of expert training, and of good advice. This wealth of learned counsel only awaits the setting up of a common treasury in which it shall be available to all. Such a treasury is the clearing house with the examiner adjunct. Shall we use it?

So convinced is the clearing house section of the undoubted value of the cooperative remedy that it has in recent years addressed itself primarily and chiefly to two great endeavors. Its leaders have been convinced that these alone can save the independent banking system of the United States. The first of these projects is the formation of new clearing house associations in every town having two or more banks, and the formation of district clearing house associations so that every bank in the United States shall be a member of a clearing house. The second project is the institution of clearing house examination, including centralized credit files and borrowers' liability records.

We are being crowded into close quarters for the immediate election of one of two alternatives. We must choose either independent banking cooperatively followed and functioning through some system of examiner clearing houses, or else accept some system of branch banking or government-managed and directed banks.

In the face of this critical situation there are still some members of the banking group here and there who are so purblind, so self-willed, so suspicious of their fellow men or so outworn and obsolete as to ignore or actually oppose the inevitable evolution of American banking. It is not enough to say, "We don't need a clearing house here. There are only two banks and we agree fine," or "Yes, we probably need a clearing house association, but we had a meeting, and out of the twelve, one seemed opposed." There are even some who insist that they can "go it alone."

Day of "Independent" Gone

NONE of these will be allowed to further play dog in the manger. Irresistible social forces are at work. The time has come, and it is now here, when we must either cooperate with each other in the day's work or be eliminated. Public opinion demands it. Legislation is even now being framed to compel it.

There is a type of individual constitutionally unable to cooperate with his fellows. There are those engaged in banking who persist in regarding those who share the same field of endeavor with them as enemies, and who regard their own institutions as fortifications from which to issue armed to the teeth for the fray and their profit accounts as merely war chests for combat. These men will have to be left out of the account. Their self-elimination is inevitable. They have destroyed themselves by hundreds and the survivors are doomed by the forces of progress. They cannot continue as intense individualists segregated from their fellows, dependent upon their own inventions and schemes, and rarely conferring or studying to acquire the new methods, compelled by fast-changing conditions. In the cities conditions have compelled cooperation. Dense populations in close contact have made clearing houses absolutely indispensable. They are soon to be indispensable everywhere.

How shall we go about it to protect and retain America's independent system of banking, and to that end set up the necessary city, town and district clearing house associations to supply existing deficiencies

and give back to the American system its deserved supremacy?

To accomplish this worthy task the entire American banking fraternity will have to support the clearing house section in a systematic campaign of field work in which the state representatives of the section shall take the direction, and with well-selected and thoroughly sold committeemen induce the necessary organizations of new clearing houses in towns and districts as rapidly as possible. In this work the state associations can render invaluable aid.

Nebraska Sets Example

WHAT form shall they take? Dan Stephens and his associates of the Fremont, Neb., district are leading the van in the organization of a district clearing house association covering a group of counties. It will employ examiners in cooperation with the Nebraska State Banking Department. This association will be voluntary, but it is the hope of its membership that ultimately it may be able to compel membership and discipline throughout its entire area. Its pioneering efforts as a district examiner clearing house will be watched with keen interest throughout the United States, and it should not be allowed to remain alone for long in its endeavors.

It will not be difficult to secure the cooperation of the governmental agencies wherever required. The consent of member banks in the clearing house associations should be secured to the furnishing of duplicate examiner's reports from the state and national authorities, and these will be useful to the clearing house executive committees.

The executive committees will find it necessary to set up definite standards as to the ratios of capital to deposits, to determine the amount of fixed assets permissible to the members, including banking house furniture and fixtures and other real estate to limit concentration of liens and to standardize in other directions which the membership shall determine from time to time.

The plan can be initiated by associating together the necessary number of banks to afford a total of resources sufficient to support the necessary expense. This may include two or three cities or one or more counties. At the outset it may be found advisable to rely wholly upon weekly reports provided by the member banks, together with copies of reports of the examinations of member banks by state and national departments.

Expense Not Too Heavy

LATER the examining service may be extended by employing clearing house examiners. It is believed that the simplest organization expense, when spread over a sufficient number of banks, need not be annually more than twenty cents per thousand of resources. The complete system with the necessary examiners, office and office help, may possibly call for as high as forty cents per annum per thousand of resources. Whatever the cost, it will prove a genuine productive investment.

It is the plan of the clearing house section to formulate and recommend a model constitution and by-laws and to induce uniformity as far as possible throughout the

(Continued on page 405)

Keeping Down Banking Costs

By JAMES S. LOVE
Superintendent of Banks, State of Mississippi

Volume of Banking Business Shows a Decided Gain but Net Earnings Are Not Rising in Proportion. Failure To Make a Service Charge on Unprofitable Accounts Still One of the Chief Causes. Increased Expenses and Loan Losses Are Others.

DECLINING income and rising banking costs are the incorrigible twins which have the country banker in particular wondering how he will be able to provide funds for the next annual dividend.

The diminishing income is serious enough without the accompanying spectre of rising cost of operation. Upon the satisfactory solution of the problem largely depends the future of many of our banking institutions, particularly the country banks.

Statistics on bank earnings published by the Federal Reserve Board and bank commissioners of several states run counter to the somewhat popular notion of large net earnings in times of prosperity.

The figures of the Federal Reserve Board indicate that while the gross earnings of banks in the System increased during the last half of 1926, the net earnings diminished. During the first half of 1926 the net profits of the member banks of the System averaged 9.34 per cent, but in the last half of the year their net profits, notwithstanding the larger gross earnings, decreased at the rate of 8.52 per cent.

The Story of Many Leaks

IN Mississippi, in the last five years, there was an increase of 28.2 per cent in the gross earnings of the 312 state banks, but in the same period the net earnings of these same banks increased only 21.6 per cent. In other words, though the volume of business materially increased, net earnings did not rise in the same proportion.

The cause is not hard to find. It is the old story of many leaks, each in itself of relatively small consequence, but of alarming proportion when viewed in the aggregate. It would appear that the decline in net earnings of members of the Federal Reserve System is due to the increase in interest paid to depositors, as well as increase in salaries and other operating expenses.

The decline in net earnings in the state banks operating in Mississippi is due largely to the same cause, together with the added increase in taxes paid by these banks.

During the five-year period mentioned there was an increase of 10.5 per cent in taxes paid; an increase of 26 per cent in salaries and other expenses; an increase of 80 per cent in interest paid on deposits—all of which materially affected net earnings, notwithstanding there was a 66½ per cent decrease in interest paid on bills payable.

While these figures are significant, and fix some measure of responsibility for

decline in net earnings of banks, still one must look elsewhere for the principal cause. The increased cost of operation, or the increased cost of doing business, is primarily responsible for the decrease in banks' net earnings.

The reason for the increased cost of doing business is due largely to unprofitable accounts carried by the banks. More especially does this apply to the smaller or the country banks.

Recently an analysis of the individual depositors' accounts has been made of many of the Mississippi banks, and in every instance this analysis revealed the astonishing fact that 70 per cent of all accounts carried on individual ledger are unprofitable. In other words, seventy out of every one hundred do not maintain a sufficient balance to offset the expense of handling their accounts.

Recent analysis of the individual accounts of one of the best banks in Mississippi revealed that the number of accounts carried on the individual ledger was 6228, with total deposits of \$4,277,212.78. Of these accounts, 5421 carried an aggregate balance of \$150,998.98, while 807 accounts carried deposits totaling \$4,126,213.80.

In other words, only 807 of these 6228 accounts carried on the individual ledger of that bank were profitable. Certainly this is a most serious problem for this bank to solve.

No doubt a similar analysis of accounts carried in individual ledgers of probably 75 per cent of our banks in this country would show similar facts.

The Only Way Out

IT is clear that a bank must either educate its depositors to the point of whether they will maintain better balances, so that the bank can serve them without loss, or else it must put on a service charge applicable to all accounts carrying an inadequate balance, and use this fee to offset the expense incurred by the bank in handling these unprofitable accounts.

Is this practical? Can this be done without injury or harm to the bank? Can the public be made to understand and appreciate the banks' position? And to cooperate with the officers of the bank in solving this problem?

To all these questions, my unequivocal answer is "Yes." The plan of charging a small amount against the unprofitable accounts for banking services rendered the depositor is certainly practical. Other busi-

nesses engaged in public service adopted this expedient long ago. If you find it convenient to move your office telephone from one corner to the other, the telephone company will add a service charge to your bill without further ceremony, yet the bank is expected to do all your bookkeeping, and render other services without receiving enough return on the deposit to cover bookkeeping cost.

Depositors Reasonable

THOSE banks in Mississippi that have adopted the plan of service charge are satisfied with the results. There has been no material loss in deposits. On the contrary, the depositor is glad when he understands the proposition of paying a small charge in order that the bank may be able to continue the service.

The greatest difficulty, of course, lies in getting the general public to understand and appreciate the banks' position. Since banks today are regarded with less suspicion than at any time in the nation's history, it would appear that the time has come for the banker to take the public fully into his confidence, and through judicious dissemination of actual facts, convince the man on the streets of the equity of his position.

Three elements have combined to cause a marked reduction in net earnings of banks:

First: Reduced income.

Second: Increased expenses.

Third: Losses.

For a discussion of the problem of reduced income it would be difficult to find a more succinct and careful analysis than that set out in a recent editorial in the *Southern Banker*, as follows:

"The trend of interest is downward. Exchange has almost wholly been abolished. The only source of revenue that remains to country banks is their interest and discount. Competition for good loans is thereby enhanced. Good roads and automobiles extend this competition. Borrowers with prime security are paying lower rates for their money in this country than ever before.

Meeting Competition

"EARNINGS for the mass of the country banks dwindle under this process. If the rates on loans are reduced to meet competition, earnings suffer. If competition captures the cream of local business, the home bank is forced to take second and third-class loans, or leave its funds unemployed. If doubtful security is accepted for

(Continued on page 422)

EDITORIAL

Government Recognition of New Necessaries

IN the ordinary course of news we are informed that the Department of Labor is changing its wholesale price index from a pre-war basis to a post-war basis and that the year of 1926 will be taken as the normal base. The new policy, it is reported, will involve revised standards of living figures with the inclusion of certain "necessities," formerly classed as "luxuries."

In other words, we are to have governmental recognition of a new set of necessities, and an indirect recording of the fact that the standard of living has gone up so many degrees, or perhaps so many flights of stairs.

What a numerous and fine family the Necessaries have become! Take, for instance, lipsticks. They were once abhorrent, contemptible things, the use of which was held by some sensible matter-of-fact people to be a sign of frivolity and shallowness, but now they are in another category, judging from their importance in the day's sales in many a store, and even if they are not admitted at Washington to the family of Necessaries they will no doubt everywhere else have all the consideration usually accorded to a Rich Relation.

There are old fashioned souls who often wonder if life was not better when it was simpler and we did not have so much machinery and so many products of machinery to get us through twenty-four hours, and they sigh for the simpler life left far behind. But though everyone realizes that the present mode of living is at times a burden as well as a fascination, let it not be forgotten that the present mode of living, with its new and additional necessities, in providing more and more employment for men and women, provides, too, for more and more men and women their chance for growth and happiness, and that is a merit sufficiently great to outweigh its many annoyances and defects!

Economically Unsound

EVERYBODY agrees that we are prosperous, so of course we must be.

Everybody agrees that we are charitable, for Federal, state and municipal governments spend great sums every year for the care of the sick and the amelioration of the suffering; and every year sees millions poured out of private purses for public benefactions.

Everybody agrees that we are intelligent for there are schools everywhere, illiteracy is negligible; every town has its public library, practically every city has its college or university and it's a rare man indeed who confines his quest for the daily news to one newspaper.

Everybody agrees that we are a religious people for we have churches everywhere and the annual output of Bibles exceeds that of any other book. Take a train and ride across the Continent, East or West and when the traveler arrives at the farthest coast and goes to his room there is a copy of the Bible—now a part of the equipment of almost every good hotel, because so many want it.

Moreover, there is a public conscience and a public opinion that are real virile forces. There are laws against cruelty to animals. Chicken fighting and dog fighting are disgusting and no one has ever had the temerity to even propose a bull fight.

We are in fact so prosperous that people constantly are coming from afar to find out the reason why, and we have been told on good authority that our prosperity has come to us because our ideals of life and conduct being right, the eternal promise "that all these things shall be added unto you" has been made good. Others take a more worldly view of the causes of our prosperity, but as has been stated, everyone agrees that we are prosperous, so—in view of the fact that prosperity is a more severe test of character than is adversity—an inquiry as to how we are standing this prosperity may have some germ of usefulness in it.

There is one item that may be helpful in the inquiry as to how we are standing our prosperity. It was issued by a government bureau at Washington in the form of an announcement that it had been estimated there were killed by motor vehicles on the streets and highways in the United States during the year of 1926 no less than 21,000 persons. Another authority placed the killings at 22,500 for the previous year. A shocking thing to contemplate that having outstripped the world in everything else—gold, machinery, railroads, churches, libraries, schools and universities, we also have achieved the record in human sacrifice!

But there is a difference between this American sacrifice and that of the pagans of old, though the difference is perhaps not altogether favorable to us. The human sacrifices of the ancients, and on the altars of the Druids in England, on the altars of the Aztecs in Mexico, almost invariably were made with the confused savage belief that the sacrificers were propitiating a Supreme Being. In the black night of their intellects they knew no better, but we in America have no such excuse for our annual sacrifice of 21,000 lives! We seek to propitiate no gods, nor to atone for any sin.

This has been called the economic age. The principles of economy are so well understood that if authorities declare any proposed measure to be "economically unsound" that measure is pretty sure to be doomed. So it has come to pass that "economically unsound" is one of our pet expressions—deadly as poison gas!

But why all this concern over this and that comparatively small thing being economically unsound while the brutal human sacrifice goes on and the number of victims increases with the years?

The national sacrifice on the highways is not economically sound. Lay aside such considerations as the blasting of hopes, the pain and the sorrow of families of the victims and compute the loss on a cold money basis. Say a human life is worth \$5,000—though many a victim makes five times that in a single year. Say \$10,000, but there is many a gray haired woman with her days of usefulness over, whose sons and daughters would count \$10,000 cheap if it would save her even from ordinary pain. Say \$15,000, but what mockery

there would be in \$15,000 as adequate compensation to the parents of a lovable boy or girl of five years! Say \$50,000 but what man or woman having \$50,000 or able by mortgaging themselves for life would not give \$50,000 to save a son or daughter from the Juggernaut of speed?

So it is clear that the loss cannot be estimated that way because money does not—cannot compensate families for lives of loved ones!

Start over again and set a figure on the economic loss of 21,000 lives a year to the nation. Place it at any arbitrary figure within reason. If \$10,000 be selected as the value of a life we have a total loss of \$210,000,000 a year which it must be understood is but a starting point for no one knows the potential value of a child that is killed—what contribution the child or youth might have made to the wealth and happiness of the nation through the years of a normal life! Among the victims there may be a Longfellow, a Riley, an Edison, a Ford, an Eastman, a Tom Paine, a Franklin, a Washington or a Lincoln. Again the figure of \$210,000,000 is but a starting point from which there must be computed other losses under various classifications.

If the sacrifice of 21,000 human lives in a single year is an incident to the enjoyment of our prosperity, the conclusion is unavoidable that we are not rating high in this test of character—we are not standing prosperity well!

The Approval of Foreign Loans

THE status of the American dollar abroad is suggestive of the status of the American citizen abroad. When the latter goes abroad he gets a passport from the Secretary of State and a visa from the consul of the country to which he is going. If he makes an extended stay he registers with the American Consulate nearest to his place of foreign domicile. The American citizen does not question the propriety of all this and the usefulness of having made himself known to the American Consulate, especially if circumstances make necessary an appeal to that official for protection.

During the Harding administration there was initiated a policy under which the American dollar about to go abroad for a long stay was urged to lay its plans before the State Department at Washington. The Department requested notification of proposed foreign loans not to pass upon their merits as investments, not to approve of them from their economic or financial aspects, but that there might not be loans contrary to public policy in the field of foreign relations. In theory circumstances might arise under which the making of a loan would be an embarrassment to the work of the State Department, and in the eyes of a foreign people might be translated as an indication that even at home the American government was not taken seriously. Loans have possibilities beyond those of profit or of loss. They have the possibility of germinating trouble and forcing themselves indirectly but none the less positively upon the government for action, even though the government does not practice the policy of bill collecting. Then there are the great war loans made by the government at Washington. The power to approve or disapprove present loans is not without advantage to the government in the collection of payments under the debt settlement.

Senator Glass lately has criticized the loan approval as an usurpation of power, but reports from Washington indicate that the Administration believes that in requesting submission of the circumstances of foreign

loans it is within its rights and does not intend to change the policy.

That this policy inures to the benefit of the public at large is suggested in a Washington statement that of the few foreign loans objected to one was to German interests engaged in the potash industry. If the loan had been issued American money thus might have developed a monopoly of the potash industry that would have "squeezed" American farmers. The second case to which objection was made was of Brazilian coffee valorization loan and would have resulted in the people of the United States paying more for their coffee.

Canadian Development

THERE are many reasons why the development of Canada should proceed with greater rapidity in the future than it has in the past, and in the process of that improvement become a better customer for American goods than she now is, though as a part of the process she naturally will have more to offer for sale to the United States.

Our great northern neighbor should develop steadily and surely because now as never before Americans have first handed knowledge of her southern sections, and the lure of the hinterland is not confined to those who penetrate its vastnesses in search of holiday beguilement. Great, therefore, as are American investments in things Canadian today, there is at present no reason why the volume of these investments should diminish.

She has abundant room, too, for emigrants to whom the chance to become a farm owner makes an appeal, an appeal that becomes more urgent to ambitious men in Great Britain where work is scarce and taxes are high. How high taxes now are in comparison with pre-war days in Great Britain is indicated by the following table furnished by the Financial Secretary to the British Treasury:

Expenditure under the various heads was:

	Per Head of Population				
	1913-14	1926-27		£ s. d.	£ s. d.
Consolidated Fund Services	0 16 4	9 5 2			
Army	0 12 5	0 19 3			
Navy	1 14	1 5 6			
Air Force	0 0 0	0 6 11			
Civil Estimates	1 37	5 6 4			
Revenue Departments	0 12 9	1 9 4			
Total	4 6 5	18 12 6			

The national debt rose from 10s. 8½d. to £8 7s. 5d. per head. Education increased from 8s. 6¼d. to £1 2s. 11¼d.; and Ministry of Labor and Unemployment grants and insurance from 3¼d. to 7s. 11½d.

With the lure of a promised land before them, and the burden of debt on their shoulders, it is not surprising that advertisements of steamship companies offering passage from Liverpool to Canada for less than \$10 per person for approved applicants should stir the imagination of men of resolution.

SOMETIMES men engaged in banking are unmindful of the benefits their own institution derive from the work of organized banking. In this issue of the JOURNAL the many activities of the American Bankers Association and its various departments are reviewed. Dealing as these articles do with every department of banking they should command the thoughtful attention of bankers everywhere.

Report of the General Counsel

By THOMAS B. PATON

THE chief activity of the General Counsel during the last Congress, working in cooperation with the Committee on Federal Legislation, has been in successfully carrying out the mandate of the Los Angeles convention to urge the McFadden bill with the Hull Amendments eliminated. This bill became a law by approval of the President on Feb. 25, 1927. It accomplished three main purposes: (1) Provided indeterminate Federal Reserve and national bank charters; (2) modernized the powers of national banks so as to place them on a more equal competitive footing with state banks, and (3) granted permission to national banks to have city branches in cities of 25,000 and over, but limited as to population in those states only where state banks are permitted to have branches, and at the same time placed an absolute curb upon the future establishment in the Federal Reserve System of branches outside of the home city.

Reference is made to the report of the Committee on Federal Legislation for further detail connected with the work of promoting the passage of the McFadden bill. Since the enactment of the measure, the office of the General Counsel has been called upon and has given numerous opinions as to the legal effect of many of its provisions. The loan limit provisions, real estate loan provisions and the branch bank provisions have been the chief subjects of inquiry.

State Legislation

IN the field of state legislation, the year has been a fruitful one in the enactment of measures recommended by the American Bankers Association. The office of the General Counsel has worked under the auspices of the Committee on State Legislation and through state bankers' organizations. Twenty-one recommended measures on twelve different subjects have been passed in a number of the states. As a full account of all this various legislation is contained in the report of the Committee on State Legislation, it would be trespassing upon the function of the committee to make any further mention thereof in this report. It may be said in this connection that aside from measures expressly recommended by the American Bankers Association, a vast amount of bank legislation has been enacted this year in the forty-two states which have held legislative sessions, and that much of this legislation in particular states will be found of more than ordinary interest to bankers in other states. The General Counsel has in preparation a complete summary of all this legislation. It is being compiled from the official session laws as fast as they are published and received. Down to the present time such laws have been received from all but nine of the states. When the summary is completed, it will constitute an appendix to the report of the Committee on State Legislation and will be published either in the JOURNAL of the Association or in some

other form for general information. A considerable number of states have this year passed statutes regulating the subject of bank collections. In one instance, where a bank issues its draft in payment of a check drawn upon it and then fails, the liability of the drawer of the original check is preserved; in other instances, preferences are created in the assets of a failed bank for the claims upon drafts issued by the bank both in payment of checks drawn upon it and in remittance for items collected from an outside source. A number of states have increased the minimum capitalization of banks and made other provisions to strengthen the banking system. There have been no additions this year to the few remaining states which have guaranty of deposit systems, while Texas has repealed its State Guaranty Law, and South Dakota has vitally modified its law so that there is no longer a general assessment upon all the banks to pay the depositors of any particular failed bank.

A number of states have this year memorialized Congress to repeal the Federal estate tax. Our Association is on record as favoring this repeal.

Tax Decisions

THE Supreme Court of the United States has handed down three important decisions this year in bank tax cases which came before the court from Wisconsin, Minnesota and Kentucky. These decisions all involved the same question, namely, whether the tax on bank shares imposed under the statutes of these states, respectively, is at a greater rate than that imposed upon other money capital in the hands of individual citizens of the state employed in substantial competition with the national banks. If so, the tax would be invalid as a violation of Section 5219, United States Revised Statutes, which forbids taxation at such greater rate. In two of these cases, those involving the Wisconsin and Minnesota tax laws, the decision was that the Federal law had been violated; in the Kentucky case, the evidence was held not sufficient to show a violation. In these states, as in many other states, moneyed capital and capital investments within the state represented by credits or intangibles is taxed at a much lower rate than the general property rate upon bank shares. The Supreme Court held that not only discrimination in rate must be shown, but also substantial competition of such moneyed capital represented by intangibles. It also held that competition may exist between other moneyed capital and capital invested in national banks, serious in character and, therefore, well within the purpose of Section 5219, even though the competition be with some but not all phases of the business of national banks. It further held that Section 5219 is violated wherever capital, substantial in amount when compared with the capitalization of national banks, is employed either in a business or

by private investors in the same sort of transactions as those in which national banks engage and in the same locality in which they do business.

The result of these decisions has been to stir up an agitation in many states for a further amendment of Section 5219 which will enable the states to tax national bank shares at as high a rate as they please, provided only the tax shall not be at a greater rate than is assessed upon other moneyed capital used or employed in the business of banking. Our Association has, heretofore, been averse to any such limitation. One possible solution is the abandoning by these states of the tax on bank shares and the substitution of a tax on the income of national banks not greater than is imposed upon other business corporations. This method of taxation is now permitted by Section 5219, and the adoption of such a system would avoid all vexatious questions which arise out of alleged discrimination in the taxation of bank shares as compared with other competing moneyed capital. The states of New York and Massachusetts have already adopted, with successful results, the taxation of bank income as a substitute for a property tax on the shares; and a law has just been passed in Wisconsin along the same lines.

Fiduciary Decision

ANOTHER important decision, and one which will be welcomed by the bankers of the country, has been handed down by the Supreme Court of the United States in May of this year in the case of *Empire Trust Co. v. Cahan*. It establishes the rule, so far as the Federal courts are concerned, that a check signed by an agent, trustee, or other fiduciary having power to draw checks, in the name or on behalf of his principal, which is made payable to the personal order of the agent, does not, from the mere form of the check, carry notice that the agent is abusing his authority; and a bank in which the agent deposits such check to his personal credit and draws out the proceeds, which he misuses in violation of his trust, is not put upon inquiry nor responsible to the principal whom the agent has defrauded.

Decision Affecting Reciprocity Tax Legislation

THE General Counsel has been cooperating with the Committee on State Legislation of the Association and the Special Committee on Taxation of the Trust Company Division the last two years in the promotion of legislation in the various states for reciprocal exemption of inheritance taxes on the intangible personal property of non-resident decedents. There is great injustice in the levying of multiple inheritance taxes on the same intangible personal property in two or more jurisdictions, and

(Continued on page 432)

FINANCING AMERICAN INDUSTRY

The **THREE WIEBOLDT STORES**

THIS widely known Chicago department store business was established 44 years ago in a store twenty-four by sixty feet. Sales for the first year were \$17,000; today the annual sales volume exceeds \$20,000,000. The twenty-four foot store has expanded into three modern department stores with a combined frontage of approximately one-half mile and floor space of over twenty-two acres.

THE Wieboldt Stores are located near the homes of a large percentage of Chicago's population. The newest store, opened in 1925, serves a large, densely populated area in the center of the city's West Side, as well as the western suburbs. In connection with the purchase of the site occupied by this store, the erection of the store building, and the increase in the Company's working capital required by this material increase in its business, we underwrote and offered two series of First Mortgage 5½% Bonds for the Company, totaling \$5,000,000. In addition to this capital financing, the Company obtains short-time money for its seasonal requirements from time to time by commercial paper borrowings through us.

A. G. Becker & Co.

Chicago

New York

ST. LOUIS

MILWAUKEE
SEATTLEMINNEAPOLIS
PORTLAND

SPOKANE

SAN FRANCISCO

Bonds

Short Term Notes

Commercial Paper



THIS enthusiastic statement is from the letter of a banker who tried his own bank's service on a trip abroad.—His bank is one of the 16,000 in America that recommend American Express Travelers' Cheques to depositors who may be leaving for a short or prolonged trip.

Why was this banker enthusiastic?

Because he found:

1. The "sky blue" American Express Travelers' Cheque is safe and *usable* money in practically all parts of the world.
2. He eliminated all fear of loss or theft of his travel funds, as the "sky blue"

"A Profitable Transaction and the greatest personal service any bank can render a traveler - depositor."

Will this banker seek to give more and more attention to this phase of good-will building in his bank? Wouldn't *you* if you knew the simple, profitable sale of American Express Travelers' Cheques could give your depositors so many advantages?

Cheque is just plain paper until countersigned by its owner.

3. Everywhere he found himself using "The Helpful Hand of a Great Service."—In all principal cities and travel centers the "sky blue" Cheque gave him the privilege of calling upon an American Express Company office, representative or Courier for helpful advice or counsel.

AMERICAN EXPRESS TRAVELERS' CHEQUES

Modifying Mortgage Fiction

By GEORGE E. ANDERSON

The Modern Mortgagee Does Not Take the Old Homestead if He Can Possibly Avoid It and as a Result the Farm Land and Joint Stock Land Banks Are Far From Being Overloaded with Foreclosed Real Estate. Land Is Resold or Made to Produce Revenue.

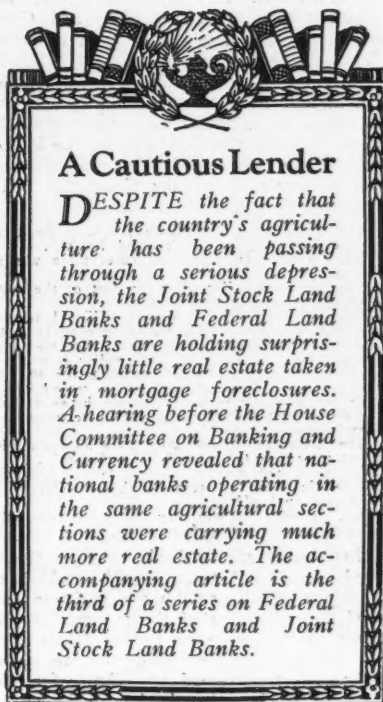
THE Farm Loan Banks of the United States and other farm mortgage concerns operating in this country have put a crimp in a certain type of fiction and particularly a once common type of melodrama. The old, old story of the village skinflint plotting the ruin of the old folks by means of the mortgage on the farm, which he proposed to foreclose and grab the old homestead, or force the fair daughter of the household to marry him, no longer is quite convincing; for whether or not the wayward son who went abroad and made his fortune gets back home just in time to pay the mortgage, it is safe to say that the modern mortgagee is not going to take the farm if he can avoid doing so.

So long as the interest and amortization payments are forthcoming, he will not take the place as a gift; for while land is an excellent security for mortgage loans and is the basis of the mortgage loan business, money lending agencies want it only as security. They have no use for it as a possession.

The Critical Phase

THE really critical phase of all discussion of the condition of the Farm Loan Banks of the country lies in the appraisals of real estate on which their mortgage loans are based, and it is in this matter of original appraisement and subsequent reappraisements and in the system of examinations to check the security on which the loans of these institutions are based that the most serious questions of the future of the farm loan system have been founded. Sound original appraisement and repeated examination are the chief guaranties of the future soundness of these institutions. On the other hand, the best test of what has been done in the past are the actual results at present. Loans placed by both types of banks are for long periods, up to forty years, and upon an amortization basis, the result being that so long as interest and amortization payments are made on a loan the latter becomes increasingly sound. Accordingly if these banks succeed in weathering the extraordinarily difficult period through which agriculture has been passing in the past six or seven years, the country will have every reason to regard their soundness as fully established.

In considering their present condition the chief test is the amount of real estate these institutions have acquired as a result of foreclosure or other possessory actions, and what they are going to do with it. It has been in the belief that the banks were being overloaded with real estate that much



A Cautious Lender

DESPITE the fact that the country's agriculture has been passing through a serious depression, the Joint Stock Land Banks and Federal Land Banks are holding surprisingly little real estate taken in mortgage foreclosures. A hearing before the House Committee on Banking and Currency revealed that national banks operating in the same agricultural sections were carrying much more real estate. The accompanying article is the third of a series on Federal Land Banks and Joint Stock Land Banks.

of the question of their position has developed.

The result of the hearings before the House Committee on Banking and Currency last spring is rather illuminating. For the purpose of comparison, banks in the Nebraska-Iowa field, where conditions were known to be exceptionally bad, were taken. Mr. W. W. Powell, secretary of the American Association of Joint Stock Banks—an organization comprising forty-six of the fifty-four Joint Stock Banks now functioning—showed the committee that, of all the farm loan agencies in the field, the Joint Stock Land Banks, concerning which there was most questioning, have the best record, the Farm Loan Banks being next in order and in some respects in a better position because of the rule which requires them to write off from their assets all real estate immediately when it is acquired.

On the other hand, this statement showed that one national bank in the same field owned real estate, exclusive of bank building and equipment, to the amount of 115.2 per cent of its capital; another to the amount of 76.2 per cent of its capital; others, 56.3 per cent, 47.2 per cent and 44.8 per cent, respectively. The average holdings of real

estate of 315 national banks in Iowa on June 30, 1926, was 39.59 per cent, and of 165 national banks in Nebraska, 24.94 per cent of the capital stock. The average real estate holdings of 1221 other commercial banks in Iowa was 43.24 per cent, and of 893 other commercial banks in Nebraska was 55.84 per cent of the capital stock. The average of all the commercial banks in these two states was real estate to the amount of 42.56 per cent of their capital stock.

In comparison with these rather astonishing figures, the Lincoln Joint Stock Land Bank, operating in the same territory, owned real estate to the amount of 14.35 per cent of its capital stock. The average holding of real estate by all the Joint Stock Land Banks in the country was 10.5 per cent of their capital, that of the Federal Land Banks 19.66 per cent, the latter, however, having already been written off the assets under the law governing them. Of the fifty-four Joint Stock Land Banks functioning on June 30, 1927, the reports of conditions submitted as of that date show that twenty-one hold no real estate and sixteen only nominal amounts.

The sore spots in American agriculture and the weak spots in the land bank system appear from the fact that the banks reporting real estate holdings in excess of \$100,000 each include the bank at Minneapolis, which held the largest amount, and that at Chicago, which comes next in the list, these banks reflecting conditions in the Minnesota-Wisconsin field and the western Illinois and eastern Iowa fields, respectively; then the banks at Lincoln and Fremont, Neb., and at Des Moines reflecting conditions in the Nebraska-western Iowa field; then banks at Cincinnati, Louisville and Lexington, Ky., affected by conditions in the Kentucky district; then banks at St. Louis, Houston, Tex., Durham, N. C., and Charleston, W. Va.

No Violation of the Law

ALTHOUGH national banks are allowed by law to place real estate mortgage loans only to the value of one-fourth their capital, or one-third their average fixed deposits during the previous year, and state banks in most states have similar restrictions, it should not be inferred that these large holdings of real estate by these commercial banks represent a violation of law. The extraordinary holdings in the first place are due to the fact that loans were placed for the usual five-year period during the inflation era from 1919 to 1921 and became due during the period of greatest depres-

sion and could not be paid. The second and perhaps a more important factor in the situation seems to be that these banks have acquired real estate from time to time as additional security for ordinary short term commercial loans, which the borrower could not pay, and on which collateral or other security had failed.

While many of these banks are tied up in frozen assets as a result of these real estate holdings, most of those so situated would have failed outright had they not been able to secure additional security and assets in the form of the real estate which now troubles them.

On the other hand, the Land Banks are not altogether out of the woods. Under the regulations governing them, the Federal Land Banks are compelled to charge off immediately all real estate acquired by them under foreclosure. In the statement of the condition of these banks as of June 30, 1927, it is shown that they have charged off \$14,994,738 against net earnings on a capital and reserves of \$74,461,884, while at the same time they are carrying in a suspension account which they are permitted to do for two years, \$6,291,249 of sheriff certificates, judgments and the like which doubtless represent, in their general bulk at least, that much more real estate in process of acquirement.

On the face of the record the Joint Stock Land Banks have much the best of the comparison, but in their case also conditions have been far from good. In the statement of conditions on June 30, 1927, these banks show real estate held to the value of \$6,094,840 on the basis of capital and surpluses of \$52,925,417, but they also have sheriff certificates, judgments and the like to the amount of \$2,718,309.

New Business Placed

RIGHT here some more large figures may be inserted with profit and interest. In 1926 the Land Banks placed new business to the amount of \$131,317,715, and the Joint Stock Banks, \$123,926,271, making a total of \$254,343,986. However, the Land Banks increased the amount of net mortgage loans in force only \$52,829,184, while the Joint Stock Banks decreased their total loans in force from \$632,475,529 to \$607,516,797, or a loss of \$24,958,732, or a net gain for the two systems of only \$27,870,452. Over \$225,000,000 net in mortgage loans, therefore, expired or were retired in 1926, of which only \$20,826,950 were by foreclosure, and this foreclosure resulted in the acquirement of land to the value of only \$2,433,988 by the two systems, i.e., \$1,863,119 by the Land Banks and \$570,869 by the Joint Stock Land Banks. However, in the first six months of the current year, additional lands were acquired by the Land Banks to the value of \$2,398,793, and by the Joint Stock Banks to the value of \$1,399,268, a total of \$3,798,061. Again it becomes apparent that much liquidation is going on, and at a greatly accelerated rate.

In the disposal of acquired lands from their organization to the close of 1926 the Joint Stock Banks had suffered a total loss of \$191,328. Ten of the fifty-six banks had reported no foreclosure, while fifteen of the remaining forty-six reported a net gain in the sale of their lands. Up to the close of 1926 the Land Banks had suffered

a net loss of \$1,185,277 on the sale of lands acquired by foreclosure, about 2 per cent of the amount proceeded against. Losses in both types of banks have been almost invariably in certain districts most severely affected by acute agricultural depression, and in these districts, with perhaps the exception of two districts, agricultural conditions are improving and land values are recovering.

Back of these statements of the banks, however, is another element of controlling importance, and that lies in the quality of some of the transactions by which these banks, especially the Joint Stock Banks, have rid themselves of encumbering real estate. In the hearings before the House Committee on Banking and Currency last spring, it was brought out that in practically all of the sales of real estate, acquired by the Lincoln Joint Stock Land Bank by foreclosure and later sold, a mortgage was taken leaving an equity which in some cases was less than of the buyer than of the bank itself. An excerpt from the testimony before the Committee indicates the situation:

The Chairman. Were those purchases financed by the Lincoln Joint Stock Land Bank? . . .

Mr. Selleck. In nearly all cases there was a mortgage taken.

The Chairman. For what per cent of the purchase price were they mortgaged?

Mr. Selleck. Those are pretty liberal terms, nearly all of them. In nearly every case, in fact, in every case, there is some cash. But we have to make very liberal terms. The policy is usually to take a mortgage, which is eligible for 50 per cent of the resale value, and then a second mortgage for whatever is the difference between that and the amount of cash received. These terms are liberal terms.

The Chairman. These sales were all bona fide sales; were they to responsible purchasers? . . .

Mr. Selleck. No sir; they are actual bona fide sales to actual resident farmers. . . .

In other words the banks sold foreclosed lands on liberal terms, which enabled it to file a mortgage with the registrar for half the sale value of the property as the basis for the issue of further bonds, and carried much of the rest of the sale value as an asset not good as a basis for the issue of bonds under the law, but good as a part of its general assets. How general this practice has been is not known. Presumably it has been less general in those parts of the country less affected by agricultural depression than in the Iowa-Nebraska district, where the depression was most acute. In the statement of the condition of the Joint Stock Banks on June 30, 1927, there is an asset entered, as we have seen, as "real estate sales contracts, purchase mortgages, etc." to the amount of \$1,127,035—not a large item as items go in a statement of assets of \$650,375,134—but large enough to cover a multitude of sins, or at least of peccadillos if there is need thereof.

Human Element a Factor

FOR all that there can easily be too hasty judgment in such matters. From time immemorial, ever since mortgages have been known in fact, the foreclosure of a mortgage is as much a matter of human reaction as it is of finance. It is not so much a question of "sob stuff" as of economics. From the viewpoint of the lending financial institution it is a matter of cold business, but it so happens that the human element, the personal equation, enters into the

transaction in such a way as almost to control it.

The acquirement of any considerable amount of real estate by any mortgage loan institution during normal times, when there is normal demand for land, is incidental to the business, and occasions no anxiety. Even during times of acute agricultural depression it need occasion no great alarm so long as the demand for land is such that farms can be occupied and operated even with little or no profit for the time being. In the cases where foreclosure becomes necessary, but where the mortgagor is capable and willing, with temporary assistance, to continue the struggle, there is usually little difficulty. But where farms have few improvements and life is hard at best, where a continuation of the struggle means nothing more than a poor livelihood, the former owner simply quits and the bank or mortgage company has a farm on its hands, sans owner, sans tenant, sans everything. Not only does such a farm produce no revenue, but it deteriorates in value rapidly. Two or three years of no occupancy or indifferent occupancy often are sufficient to reduce the value of such farms to the danger point. There is also an accumulative psychological effect of several foreclosures in a community, and inasmuch as most foreclosures result from conditions which affect considerable territory at the same time, numerous foreclosures are likely to take place in a district about the same time. Something like a panic takes possession of all the farmers in the district, and demand for land all but disappears.

Problem of Tenants

IN most communities, however, there is always enough land hunger to keep farms occupied, and with the passing of depression the problem is solved. In the meanwhile one of the most difficult problems facing the Farm Loan Board is that of securing tenants for its acquired lands. At all events foreclosure means something more than whether the land pledged is worth the loan. It introduces the question of whether the mortgagee under the special and perhaps local and temporary conditions can dispose of the land at anything like its real and permanent value. It is easy to perceive that it is often very good banking or finance to grant very liberal terms to a purchaser of lands by land banks. It is good business to get a man, particularly a good man, on the farm even if the bank is compelled to carry a second mortgage which eventually it may be compelled to write off. This principle was recognized by Assistant Secretary Dewey in his statement before the House Committee last spring, when he said:

"There are constantly changing conditions in banking and loaning on land. At one time it might be necessary, owing to land value inflation, to become a little stiffer with the regulations. Another time to help over a period of resuscitating value it might be better to temporarily liberalize the regulations. As a matter of fact, in handling credits there must be some elasticity—that was the theory, as you know, of the whole Federal Reserve System."

The lands held by the Federal Land Banks, already charged off against their earnings, in due time will be sold, and the

(Continued on page 385)



The open door to banking service

Individuals, commercial concerns and banks in all parts of the world, as well as our many thousands of customers here in Chicago, have come to recognize the great colonnaded entrance of the Illinois Merchants Trust Company as the open door to banking service.

The specialized facilities of this institution for commercial banking, foreign banking, investment banking, savings and trusts make the Illinois Merchants Trust Company an advantageous Chicago connection for banks or business concerns, wherever they may be located.


ILLINOIS MERCHANTS TRUST COMPANY

Capital & Surplus 45 Million Dollars

CHICAGO

Here's how they like this desk in a large Buffalo Bank



THE  The Commercial Bookkeeper's Desk
(Patent Applied for)

"I DOUBT if you could build a better desk," said L. R. F. Arthur, head of the bookkeeping department of the Liberty Bank, when we asked him. "It's complete. It's built to fit the machine. The way the ledge on the right fits over the carriage of the machine allows the operator to keep both his checks and his keyboard right in front of him. "The desks work out just as well in the branches as

here," and he glanced with pride down the long battery of machines and our desks with their operators charging through an enormous day's business. Ten of our desks helped the Liberty Bank overcome the problem of cramped temporary quarters. And since the bank moved two years ago into its soaring 23 story monument, our desks have increased to 24 for the Liberty Bank and its branches.

MAIL THIS COUPON

YAWMAN AND ERBE MFG. CO.

1085 JAY STREET

ROCHESTER, N. Y.

Steel and Wood Filing Cabinets—Steel Shelving—Desks—Safes
—Office Systems and Supplies—Bank and Library Equipment

YAWMAN AND ERBE MFG. CO.
1185 Jay Street, Rochester, N. Y.

☐ Please send me a folder on your new Commercial Bookkeeper's Desk.

☐ Enclosed find samples of our ledger cards and statement sheets. Kindly quote us per M.

NAME

ADDRESS

State Secretaries Section

Remarkable Results Reported in Suppression of Bank Crime in the Middle West. Laws Providing Death Penalty and Life Terms for Robbers Obtained. Bankers Generally Oppose Change in Tax Law. County Credit Bureau Movement is Making Good Progress.

REMARKABLE results in the eradication of bank robbers in the Middle West were reported by members of the State Secretaries Section of the American Bankers Association of the Houston convention.

In Illinois, where the Vigilante Plan is in operation, the loss through robberies and burglaries has been reduced from \$350,000 in 1924 to less than \$15,000 to date this year. In Oklahoma, where a new law provides the death penalty where firearms are used in the robbery of a bank, a bank bandit is under sentence to the electric chair. In Indiana, through the efforts of bankers, the legislature enacted an habitual criminal bill under which a bank robber has just been sentenced to life imprisonment.

Campaign in Illinois

THE campaign in Illinois was described by M. A. Graettinger, secretary of the Illinois Bankers Association, who said:

"In 1924 our state was infested with bank robbers and burglars. We had 73 attacks in that year with a loss to the banks and the insurance companies of perhaps \$350,000. We then conceived the idea that there was one way to eliminate and to minimize these attacks, and we followed the idea of Iowa in establishing what is known as Vigilantes. We call them town guards. They are appointed as deputies under the sheriff and act entirely in accordance with the law. The bankers finance their equipment and cooperate with the sheriff in seeing that they function.

"We began operations the first of April, 1925, and since that time the bank robberies have decreased very materially. This year we have had only about twelve attacks, most of them burglaries, with hardly any loss, and the total loss to the state has been about \$12,500 so far.

We do not depend upon this town guard organization entirely. We have a staff of men in the office who make investigation after a robbery is committed and follow the clues, cooperate in the prosecution, and see that the cases are worked up against the men where there is evidence, that they are convicted and confined in the penitentiary. These guards have done wonderful work in apprehending and helping to apprehend.

"Just a little over a week ago in the southwestern part of the state, three men held up a bank. This county was not organized, but the men fled into an organized county, were immediately surrounded, were captured the next day and were brought to the county seat of the county in which they operated. Our man talked with them

practically everyone of them is in the penitentiary at the present time.

"One gang consisted of three men who went into a bank as bank examiners. They held up the bank, or rather got the banker to throw all his securities and money on the table. They checked with him for two or three hours until finally he was the only one left in the bank, and then they tied him up and went away with \$180,000. The bank was wrecked, of course. Nobody had any clew. But in the confession told of previously we got hold of one man, and he has since been convicted. He was found to be a jail breaker and a bank robber, who broke jail in Missouri. One confederate was later arrested because he went to the penitentiary dressed as a priest to gain entrance, and by the use of explosives endeavored to get his pal out, but he was not permitted to enter and was arrested. He is also in the penitentiary. With respect to the third man, the information came through the underworld. He was a Chicago man, apparently in the jewelry business. He also is in prison.

"The protection afforded by these Vigilantes has aroused public sentiment, and it is public sentiment that is stopping these men and is creating posesses whenever an attack occurs. Very seldom does any man get away now."

Eugene P. Gum, secretary of the Oklahoma Bankers Association, told of the results obtained in that state, as follows:

"We have a statute in Oklahoma which provides that for the robbery of a bank, where firearms are used, the penalty may be anything from twenty years to the electric chair. About six months ago we had an example of that which we hope will be very helpful in cutting down the crime wave in Oklahoma. A fellow by the name of Dave Brown robbed a bank in Oklahoma. He was captured, tried and sentenced to die in November."



William A. Philpott, Jr., of Dallas, Tex., Incoming President of the State Secretaries Section

and induced them to plead guilty. They were indicted and sentenced that afternoon, and they were in the penitentiary twenty-four hours after they committed the act.

A General Roundup

"SHORTLY after we began operation we got word of a gang that had been operating the state, through a confession of one of the members, which gave us a clew concerning twenty-five or thirty men who had been operating against banks, and

Progress in Indiana

A. C. BROWN, president of the First National Bank of Greencastle, and C. O. Holmes of Gary, President of the Indiana Bankers Association, reported on the success of the Vigilante system in that state, where the Association, largely through

the efforts of Miss Forba McDaniel, the secretary, obtained the passage by the legislature of a measure establishing a State Bureau of Criminal Identification.

"This law has tied in the officials of Indiana to our problems," said Mr. Brown, "and, although it is not always so, they are taking credit for enforcing the law in the apprehension of bank robbers, as the state never has thought it necessary to take cognizance of before.

"The state bureau has only been in operation since the first of July. In addition to the bill creating it, we also had passed the Habitual Criminal Act, which went in force on the first of July, and recently our first man was sent up for life under this measure. It was found he was connected with two bank robberies in Indiana.

"The state is taking the credit, and we are glad they are, of sending this fellow up. We have got the recognition of the state that this is a good thing, and they are going to be more anxious than we to make a record."

Fred P. Fellows, Secretary of the Minnesota Bankers Association, said that in that state 50 of the 87 counties were thoroughly organized, and there has been very little bank crime. In the last two years there have been only two successful bank robberies with a total loss of \$30,000. Minnesota has two penalties for bank robbery, one a sentence of forty years, the other for life. In the first four months of last year nine men were sent up for life for attempted bank robberies.

Others who told of the progress of the vigilante movement in their states were Mrs. Helen M. Brown, Secretary of the Michigan Bankers Association; Fred M. Bowman, Assistant Secretary of the Kansas Bankers Association; Frank Warner, Secretary of the Iowa Bankers Association, and W. C. MacFadden, Secretary of the North Dakota Bankers Association.

Bank Taxation

DISCUSSION of bank taxation, led by Fred P. Fellows of Minnesota, showed the consensus of opinion of the secretaries to be that any amendment to Section 5219 of the revised statutes, as proposed by some Pacific Coast bankers, would be inadvisable at this time.

In the round table discussion following Mr. Fellows' talk, Charles W. Zimmerman, Secretary of the Pennsylvania Bankers Association; C. H. Mylander, Secretary of the Ohio Bankers Association, and Harry G. Smith, Secretary of the Kentucky Bankers Association, were among those who believed that no change should be made in Section 5219.

The organization of county credit bureaus and rural clearing house districts was reported going ahead rapidly in various sections of the country, with most satisfactory results in every instance. Haynes McFadden, Secretary of the Georgia Bankers Association, said that more than 100 counties had been organized in that state, chiefly on the service charge, reduction of interest rates and other movement to improve the earnings of country banks. M. A. Graettinger, who opened the discussion of the subject, said that in Illinois there was no doubt of the advantages and benefits of district clear-

ing houses. County credit bureaus have proved the need for that step, and the movement was spreading in Illinois, he said. Fred Bowman reported that in Kansas every county either had an organization perfected or a set-up arranged.

Pennsylvania Method in Public Education

CHARLES F. ZIMMERMAN, talking on "The Low Down On This Public Education Business," told of the start in 1921 of the public education movement by the American Bankers Association.

The Pennsylvania Bankers Association now appropriates \$3,000 each year to this work. We have made a reprint in booklet form of the series of "Talks on Banking and Elementary Economics for the Eighth Grade." A carefully chosen key-banker is appointed in each county of the state. It is his duty to establish a personal contact with the county superintendent of schools, under whose direction the importance of the work is presented before the annual county teachers' institute, and a copy of the booklet placed in the hands of each teacher. Teachers are asked to read one of the talks to the scholars on each of four successive Friday afternoons and to have the pupils write essays on each talk after it is read. Rural schools are especially interested in the subject matter, and reports clearly indicate that the teachers themselves value the talks very highly. Year by year we are reaching more than 8000 Pennsylvania school teachers, and year by year the willingness of the school authorities to cooperate with our committee increased. Last school year approximately three-fourths of the counties of Pennsylvania were covered. This year the work is being still further expanded so that we expect to enlist the active assistance of at least 10,000 teachers.

"My study of the methods used in other State Associations where an earnest attempt has been made to promote the Public Education plan leads me to conclude that in most cases the banker fails to respond because too much is asked of him. It is difficult for him to maintain his enthusiasm for a speaking program in which he is frequently called upon to go over the same ground. There is a rather fixed boundary line to the variety of worthwhile subjects for talks to school children in the field of simple banking and economic principles, so that while new material may be called for, it is quite possible—or has been thus far—to supply such new subject matter as would prove to be effective. The plain truths contained in the talks must be taught over and over again, and since they are being reviewed not oftener than once or twice each year, no difficulty will be found in their repetition. The primary objective, therefore, is to enlist the help of the banker as the contact point in his county, asking him to do only the specific work of keeping in touch with the school authorities in order that the talks should be presented to the pupils from year to year. That we are succeeding in Pennsylvania is clearly shown in the fact that the work is being done, and that the same key-bankers are glad to serve regularly in their respective counties.

"No other agency is so splendidly adapted to promote a thorough cooperative program of public education in economics as is the state bankers association when aided by the public school authorities. A reading of the talks themselves will persuade any inquiring mind that there is nothing visionary or impractical in the plan, and it is my belief that those associations that have thus far failed to take this plan seriously, are missing a golden opportunity for rendering a public service of outstanding importance."

Russell Smith, chairman of the Committee of Education of the California Bankers Association, said that in his state the American Institute of Banking chapters had aided greatly in the education work by taking over the active burden of pushing the campaign in the schools. Men who are recruited for the work are trained in teaching so that they will be qualified to adopt the teacher's methods in talking to the children.

Haynes McFadden spoke on the activities of bankers associations, and his discussion appears elsewhere in this issue.

Bankers Behind the Grills

R.E. WAIT, Secretary of the Arkansas Bankers Association, made a plea for "the young banker behind the grills." He contended that the bank clerk should have the same opportunity for inspiration and learning as have the executives at sessions of their state and national banking associations. He advocated the organization of Junior Bankers Sections of state associations, and told of the success of such a plan in Arkansas. There the junior organization holds conferences once a year, and without guidance or direction puts over splendid educational programs. The Junior Section is sponsoring and developing the American Bankers Institute educational courses, and as a result the young organization is turning out some excellent executives.

The State Secretaries Section also heard an address by W. C. Coapman, Secretary of the Wisconsin Bankers Association, on "How Can Banks Make More Money?" This is printed elsewhere in this issue.

The following new officers were chosen by the Section: President, W. A. Philpott, Jr., of Texas; First Vice-President, Frank Warner of Iowa; Second Vice-President, M. A. Graettinger of Illinois; Board of Control, Messrs. Philpott, Warner and Graettinger, Harry G. Smith, retiring president of the Section, and Paul P. Brown of North Carolina.

Clearing House

(Continued from page 344)

tution is going to be the dominant factor in determining whether or not the place you call home shall be bigger and better than it ever was before."

The following officers were elected: President, O. Howard Wolfe; vice-president, William F. Augustine; chairman Executive Committee, J. B. McCargar, San Francisco; members of the Executive Committee for three years, C. A. Chapman, Rochester, Minn.; Fred W. Ellsworth, New Orleans.



There's REAL machinery behind Efficient bank operation

MAMMOTH presses are revolving today, and every day—producing ledger leaves, statements, deposit tickets and many other loose-leaf forms that make the keeping of bank records easier; that make bank routine more dependable.

These machines belong to Baker-Vawter. They are kept busy by banks and commercial institutions who realize the importance of properly designed and produced record keeping forms; who are aware of the economies of quantity production.

These giant presses do far more than produce good record forms. They make low prices possible. For when they print your order they print it with hundreds of similar orders. Every buyer profits by the reduced cost. You get the highest quality of material and workmanship for the price of an ordinary job.

The next time you need ledger leaves, statements, deposit tickets, transit letters, in fact any record form used in banks, talk to the Baker-Vawter Man. He is a fellow worth knowing.

BAKER-VAWTER SALES CO.

Tonawanda, N. Y.

Division of

Remington Rand

When writing to advertisers please mention the American Bankers Association Journal

Baker-Vawter has a strict one-price policy which bankers appreciate. It is a fair policy that protects the small purchaser and guarantees a fair price to the large buyer.

The Baker-Vawter Man will gladly explain it.



Attach to
Letterhead

Baker-Vawter Sales Co.
Tonawanda, N. Y.

Please send us your price for printing
the following forms. _____
(Attach samples) Quantity

Name _____

A-11

UTICA, N. Y.

UNION TRUST CO. CLEVELAND, OHIO

FED

EXPERIENCE HAS PROVED THEIR VALUE

BANK

The experience of many institutions has definitely fixed the value and usefulness of Lamson Pneumatic "Baby" Tubes in banking service.

B.

One prominent banker's comments express the opinions held by hundreds of users—

Y

"At the time we selected your pneumatic tube system we very carefully studied every means of communication on the market. We felt then that your system was the most satisfactory for banking institutions. We feel safe in saying that the results we have obtained make us believe that we were not wrong in our conclusions."

ME

BANK

To measure the value of the services rendered by "Baby" Tubes against their moderate cost, leads to but one conclusion. They ought to be functioning in your bank now.

LI

CE

For details—how they can be applied to your problems, and how much it would cost—call a Lamson Representative to your bank. Send the convenient coupon.

THE LAMSON COMPANY
Syracuse, N. Y.

FIR

LAMSON

"BABY" TUBES

PNEUMATIC

THE LAMSON COMPANY
Syracuse, N. Y.

Please send a man who knows how to survey my communication problem and estimate the cost of a system of Lamson "Baby" Tubes designed to fit my needs.

Name

Firm

Address

Stonier is New Educational Director

HAROLD J. STONIER is the new educational director of the American Institute of Banking. In assuming this position at the head of the educational arm of the American Bankers Association, he becomes the active director of the largest adult educational group in the United States. Mr. Stonier, when selected for this new post, was vice-president of the University of Southern California. He succeeds Stephen I. Miller, who resigned to accept the executive managership of the National Association of Credit Men.

Mr. Stonier is widely known in financial and business circles as well as in educational work on the Pacific Coast. He organized the College of Commerce and the Extension Division of the University of Southern California eight years ago, leaving the field of investment banking to do this work. He is known as one of the most effective public speakers in this country and has frequently appeared on programs of banking conventions in the West. He is president of the Pacific Coast Advertising Clubs Association, and last year served as president of the Los Angeles Advertising Club. He has been particularly



Harold J. Stonier

active in the field of public speaking, and is regarded as an outstanding authority on this subject, having delivered frequent lectures on business and political topics.

Mr. Stonier is a native of San Jose, Cal., having been born there in 1890. He is a graduate of the University of Southern California, being the possessor of a B. A. and M. A. degree from that institution. He has taken graduate work in economics and finance at the University of California and Columbia University. Mr. Stonier is a member of the Alpha Kappa Psi College of Commerce honor fraternity, and of the Phi Alpha fraternity. He belongs to the University Club of Los Angeles.

Mr. Stonier is married and has lived at Los Angeles for a number of years.

As educational director of the American Institute of Banking, Mr. Stonier will have general direction of the educational work in more than 190 local chapters throughout the United States with a student enrollment in excess of 33,000. Mr. Stonier was one of the speakers at the Public Education Conference held at the last Institute convention.

Should There Be a Limit to the Variety of State Associations' Activity?

By HAYNES MCFADDEN

Secretary Georgia Bankers Association

ASSOCIATION activities should not be limited in variety at the expense of association usefulness. Usefulness is the purpose and destiny of every successful organization of bankers, and it is easy to multiply activities until the man power of association headquarters is spread out too thin to be effective in anything. When that point is reached it is time to call a halt on variety and to concentrate upon efficiency.

By means of capable committee chairmen the variety of useful purposes that an association can serve is almost unlimited. This scope can be achieved without unduly taxing the day's work of the secretary who in the very nature of the case must be endowed with sufficient executive ability to interest his members in performing the greater part of all duties that can be assigned to committees and committee chairmen. For further consideration of this subject the functions of a bankers' association should be divided under three heads.

PRIMARY functions. These include everything directly beneficial to the member bank and to the profession of banking. At the moment I would classify the organ-

ization of county associations for the enforcement of the service charge and similar rules as the most important primary function in the interest of the membership. This is the only method as yet devised that at once accomplishes the double purpose of improving methods of banking and the earning power of the member bank through the motive power of association headquarters. This is also probably the best illustration of the degree to which the assistance of the member banks can be most extensively used to lengthen the shadow of the secretary. Other important primary functions include the protection of member banks from criminal operations, opinions on points of law through the association's attorney and all standard committee work. Under that head typical classifications are legislation, Federal Reserve relations, education in thrift and savings, developing proper channels to accommodate farm loans and all other committee work customarily employed to bring direct benefits to the membership.

SECONDARY functions. Under this head should be classified those activities which contribute principally to the public good and by means of which banks prosper in the

same ratio that general prosperity prevails. Agriculture, good roads, cooperation with every civic enterprise in which a bankers' association can take a proper interest, constitute the secondary functions in which the usefulness of a bankers' association is practically unlimited.

MISCELLANEOUS functions. It is almost entirely in this field that a careful watch has to be kept in order to hold the activities of an association within proper bounds. It is my opinion that no association should become a department store and engage in the sale of typewriters, adding machines, stationery, deposit slips, blank checks and other supplies. The danger in the extension of such activities is two-fold. In the first place it sets up between the association and its members the relationship of merchant and customer. This atmosphere easily invades and detracts from the ethical mission and from the professional dignity that a bankers' association should maintain with its members. In the second place, supplies whose source of distribution affords a commission to the association are not usually of the best quality. Distributors who

(Continued on page 402)

Resolutions of the American Bankers Association

THE American Bankers Association is glad to note that the country has been prosperous and practically all sections of the country have continued to flourish. It is true all lines have not enjoyed the same high level of prosperity in 1927 so characteristic of 1926. At the same time, there is nothing in recent developments to indicate that we are likely to have anything in the nature of a depression. There has been a marked absence of speculative tendencies in commerce and industry. Both labor and capital have been happily and profitably employed. Money has remained easy and the country has been able to continue lending large sums to other countries, notably to Europe, and this has been of the greatest assistance in aiding the economic rehabilitation of the world as a whole.

AGRICULTURAL conditions are improving though there is still much room for betterment. The indices of price levels of farm products are approaching the level of other commodities. Partly as a result of good crops and partly as a result of higher prices, the farmers of the country are likely to have much less cause for complaint than they have had for some time past. The community of interest between bankers and farmers cannot be too strongly emphasized. Many members of this Association are themselves farmers by long experience and the prosperity of practically all bankers is dependent upon that of our farming communities. They are deeply interested in the developing of sound economic policies for the stabilization of this basic industry.

THIS Association desires to reiterate the opinion expressed at the convention last year, that the ever-growing burden of state and local taxation is becoming a detriment to the development of trade, industry, transportation, and finance in this country. There continues to be a tendency to have overlapping and competitive taxes, especially as regards taxes on inheritances and transfer of estates.

This Association recommends that in the event of a revision of our income tax law, special consideration be given to the tax now levied on corporations with a view to reducing it greatly. This would be effective in maintaining proper competitive conditions in this country by aiding the development of smaller corporations.

This Association believes that time has proved that the limitation contained in Section 5219 U. S. Revised Statutes is a wise one and has protected state banks as well as national banks. It is therefore urged that Section 5219 be retained without any modifications. The states of New York, Massachusetts and Wisconsin have substituted a system of taxation of banks on their in-

comes in lieu of the ad valorem tax on shares with successful results. It is believed a system of income taxation of banks can be successfully adopted in many other states and thereby escape the vexatious questions of discrimination which grow out of taxation of credit investments and intangibles at a lower rate than bank shares.

THE General Convention of the Association heartily indorses the action of its Executive Council in aiding the sufferers of the floods which occurred in the Mississippi Valley earlier in the year. It believes that every effort should be made to avoid the recurrence of this national calamity and urges the Congress of the United States to take prompt action to provide for the construction and maintenance of the necessary works to prevent floods of this nature in the future. The Federal government should assume the sole responsibility for financing, placing, building, and operating the necessary works needed to bring about permanent relief. The seriousness of the situation is such that it demands immediate and comprehensive legislation dealing solely with this problem. It is also urged that, because of the seriousness of this flood problem, it be divorced from all other national issues and dealt with in legislation and administration upon its merits apart from all other undertakings.

OCCASION is taken to express gratification at the remarkable progress that has been so clearly evident in most of the countries of Europe during the past two years

and to extend to their peoples our sincere congratulation on the improved conditions that now prevail.

Since the World War the countries of the world have become increasingly interdependent, and ill-advised expressions from the platform and in legislative halls which are often wrongfully construed by the peoples of foreign countries as reflecting the sentiment of our people are to be deplored.

IN accordance with the report to this convention by the Economic Policy Commission, it is believed that one of the most potent causes of bank failures is the excessive number of banks; that this situation can be corrected in part by increased capital requirements and more completely by the limitation of new charters to the needs of each community; that, to the end that directors better discharge their obligations, this Association should prepare standard forms for the presentation of business to directors' meetings; that additional restrictive legislation covering loans and investments is not desirable but rather the better enforcement of existing statutes; that the clearing house examination system having been in general highly advantageous, its further development is strongly recommended, and that the appropriate agency of this Association should promote the organization of local regional associations of banks for the purpose of supporting and securing a most effective use of the existing system of government examinations.

Thanks are due to President T aylor for the time and energy he has devoted to the business of the Association. Especially should bankers of this country be grateful to him for his activity in carrying out the instructions of the Los Angeles Convention in reference to the McFadden Act. The law definitely strengthens our national banking system and insures the continuance of the Federal Reserve System.

THIS Association extends its sincerest thanks to the bankers, hotels, press, ladies, and general public of the city of Houston and the state of Texas for the manifold kindnesses and gracious hospitality extended to all of the delegates and their families. Likewise, the Association is indebted to the speakers at the various sessions of the Convention, Divisions and Sections who, by their carefully prepared addresses have helped to make the Fifty-third Annual Convention of this Association one of profit and enjoyment to all those who were privileged to be present.

This Association notes with regret the passing away since the last General Convention of three of its distinguished ex-presidents, Lyman J. Gage, formerly Secretary of the Treasury, John L. Hamilton, and Wm. E. Knox.



W. D. Longyear, of Los Angeles, the new Treasurer of the American Bankers Association



New Union Trust Building, Detroit, now under construction

ONE of the soundest of maxims is: "He profits most who serves best." Realization of its truth pervades this entire organization as we start construction of our new home—a memorial of more than 36 years of faithful service and an assurance of even finer and broader service in years to come.

Union Trust Company

First Trust Company in Detroit—Friend of the Family
Griswold at Congress Street
Detroit

When writing to advertisers please mention the American Bankers Association Journal



LIBANUS M. TODD, president of The Todd Company, inventor of the Protectograph; Chairman National Bank of Rochester; Trustee Mechanics Savings Bank; Director Rochester Gas and Electric Corporation.



GEORGE W. TODD, treasurer of The Todd Company; Director Lincoln-Alliance Bank; Director Eastman Kodak Company; Chairman Stromberg-Carlson Telephone Mfg. Co.

These men have built an "AAA₁" business on protective service to banks

In 1899, Messrs. Libanus M. and George W. Todd started to manufacture and sell a check protector—the Protectograph. A wood-shed was the first "factory." Resources of the partnership were so limited that the process of manufacture waited on the proceeds of sales.

From this humble beginning and out of this first effort to provide protective service have grown the world-wide activities of The Todd Company. Today the financial rating of The Todd Company is "AAA₁," the highest. Two great plants at Rochester and Chicago cover six acres—an industry that provides banks, businesses and individuals throughout the world with appliances, supplies and service that protect funds in transit.

More than a million Protectographs—models for every business and personal need—are in use in sixty-four nations.

The Todd Check Signer—a new machine—is everywhere acclaimed one of the greatest achievements in the modernization

of business routine. Banks, investment houses, municipalities and business organizations that issue checks in quantities now save the time their executives formerly wasted signing checks by hand.

Todd Greenbac Checks, which flash "VOID" the instant a forger's acid touches the paper, are added protection for the circulating funds of 200,000 banks and business houses.

Bank depositors everywhere know Super-Safety Checks, which The Todd Company supplies to banks for their depositors. Banking institutions have found that these attractive checks bound with Antique Moorish Covers are a dignified sales asset that brings new depositors into a bank. The Bankers' Supply Division of The Todd Company, which manufactures Super-Safety Checks and Antique Moorish Covers, conducts an advertising service that has been used by thousands of banks with gratifying results.

With the Protectograph speeding routine check writing and facilitating check

handling with a quickly read imprint—the Todd Check Signer relieving executives of check signing—Greenbac Checks providing protection against altering—Super-Safety Checks and Antique Moorish Covers carrying a bank's protective service to its customers in an attractive manner—and an advertising service for banks—The Todd Company offers a complete service of protection. This service is so thorough in its conception that every bank and business house, no matter what its size or individual requirements may be, can find simpler, faster methods, greater protection and a means to more economical, more profitable procedure by investigating the Todd System.

The services of The Todd Company are available in every important city. Get in touch with a Todd representative or address an inquiry to us. The Todd Company. (Est. 1899.) 1176 University Avenue, Rochester, N. Y. Sole makers of the Protectograph, Super-Safety Checks and Todd Greenbac Checks.

TODD SYSTEM OF CHECK PROTECTION



1

The Protectograph eliminates a large percentage of all check frauds by preventing raised amounts. It is made in a variety of standard models, one for every type of business—\$37.50 up. For private use the Personal Protectograph at \$20 has a nation-wide popularity. Only Todd can make a Protectograph.



2

Todd Greenbac Checks, with their patented self-canceling features, eliminate another major source of possible check losses by preventing change of payee's name, date and number and "counterfeiting." The instant the forger's acid is applied countless imprints of the word "VOID" appear.



3

Standard Forgery Bonds cover the remaining check-fraud possibilities, namely, outright forgery of signature or of endorsement. As preferred risks, Todd users qualify for such bonds at large savings from the Metropolitan Casualty Insurance Company, New York.

When writing to advertisers please mention the American Bankers Association Journal

Bankers Acceptances Finance \$5,000,000,000

IN the field of acceptance financing, this has been the most prosperous and constructive year that America has ever experienced, the Committee of the American Bankers Association on Acceptances of which Jerome Thralls of New York is chairman, reported at the Houston convention.

"Through substantial capital increases, consolidations and mergers, our banks have strengthened their positions and have expanded their facilities for financing both domestic and international trade," it said. "We now have individual banks with resources of over a billion dollars—banks, private bankers and acceptance houses that finance trade the world over and whose credits are honored everywhere.

"During the year ended Sept. 30, 1927, over \$5,044,000,000 of business was financed with American bankers acceptances. Of this total \$1,926,808,000 (38.2 per cent), covered imports; \$1,750,268,000 (34.7 per cent), exports; \$721,292,000 (14.3 per cent), goods stored in independent warehouses in this country; \$136,188,000 (2.7 per cent), domestic shipments; \$156,364,000 (3.1 per cent), dollar exchange; and \$353,080,000 (7 per cent), covered goods stored abroad or shipped from one foreign country to another foreign country. As of Sept. 30, 1927, the total of American bankers acceptances issued and outstanding was \$863,823,006. The corresponding total as of Sept. 30, 1926, was \$614,151,287. The monthly average for the current year was \$771,336,048, while that of the year 1926 was \$685,000,000.

These figures should be most gratifying to every American banker. They tell a true story of progress and prosperity here and of improved conditions abroad. They are a testimonial to American enterprise and industry.

"THE discount market has broadened considerably and has demonstrated its ability to absorb the ever increasing volume of bankers acceptances. The turnover of bills in the market for the year will exceed \$5,000,000,000. Rates have been comparatively easy and fairly steady throughout the year. Their range for ninety-day maturities has been from 3½ per cent to 3¾ per cent. The present rates of discount for prime ninety-day eligible bankers acceptances are 3¾ per cent bid, ask 3¾ per cent. The discount houses and dealers in the market are now carrying about \$100,000,000 of acceptances. The average aggregate of their portfolios for the year amounted to about \$75,000,000. These holdings have been carried mainly with funds borrowed at call from banks throughout the country. In addition to these holdings of bankers acceptances, the discount houses and dealers have carried in the same way a very substantial supply of United States Treasury notes, certificates and other short term United States government obligations. These call loans against eligible acceptances and short term United States government securities are growing in popularity and net the lenders almost as good a return as do similar loans made against non-eligible collateral. The present rate on discount market call loans is 3¾ per cent.

When funds are not available to the market from other sources, the market seeks accommodation at the Federal Reserve banks. The Reserve banks have cooperated closely with the market. They have been ready buyers of bills and can be depended upon to relieve the market at times of serious congestion. Large corporations, trustees of estates, savings banks, insurance companies and commercial banks are among the principal American investors in bankers acceptances.

On Oct. 12, 1927, the Federal Reserve banks held \$274,361,000 of acceptances purchased in the open market, and showed contingent liability of \$201,956,000 on bills purchased for foreign correspondents. It would appear from the latter item that many hundreds of millions of dollars are now being invested in American bankers acceptances for gold reserve purposes, which is not only a great compliment to our credits, but which is at the same time a tremendous help to trade both here and abroad. The spread between the London market and ours on rates on bankers acceptances has ranged from about ½ per cent to 1 per cent throughout the year, the London rates being continuously higher than ours. The Acceptance Commission charged by the leading acceptors ranges from a minimum of 1 per cent to a maximum of 2 per cent per annum.

"YOUR committee has cooperated closely with the American Acceptance Council and we take this occasion of commending the good work of that important organization.

"The British Parliament passed in August, 1924, an act regulating the carriage of goods by sea. This act has since been amended to conform to the rules laid down at the Hague Conference, attended by representatives of the principal nations of the world. It is now proposed that in order to secure for American interests benefits similar to those that are accruing to British bankers, merchants, traders and manufacturers as the result of this act, that effort be made to have a bill enacted by the United States Congress, under which it will be possible to work out an international uniform ocean bill of lading. Through such a bill, the limit of the carrier's responsibility may be broadened and more clearly defined. The time in which to press suit for claims or damages may be extended to possibly twelve months and the burden of proof when damages do arise, may be shifted to the carrier, who has heretofore frequently escaped on the grounds of 'exceptions.'

"Great sums are invested in the London discount market by alien investors that would not go there were it not for the fact that the income therefrom is exempt from taxation by the British authorities. It is suggested that in order to attract foreign funds into the American market, we should devise a plan under which the income would be non-taxable. It is, therefore, recommended that the present provision of the statute exempting from taxation in this country, interest accruing to non-resident aliens and foreign corporations on bank deposits should be extended to include the discount or profits

arising from investment in acceptances in this country. Income upon such investments by foreign governments in the American markets is now exempt. In view of the desirability of carrying great sums here as gold reserve for exchange and for trade purposes, it would seem greatly to the advantage of all interests to have these taxes waived.

"DIFFICULTIES are continuously arising because of the varied forms of trust receipts that are being used in this country. The American Bar Association now has under consideration a proposed measure which it is hoped will be brought before the legislature of the various states during the coming year. The adoption of this measure will pave the way for a uniform and binding trust receipt. We suggest that the legislative machinery of the American Bankers Association be set in motion in cooperation with the American Bar Association, in order to bring about the passage of this needed and helpful legislation.

"Although standardized letter of credit forms have not been put into general use much progress has been made and the work on this important matter will be continued.

"Under the direction of the Federal authorities at Washington, considerable progress has been made in licensing warehouses and perfecting control over the operations of those heretofore licensed.

"Some disappointment has been experienced with the plans for handling agricultural products through cooperative marketing.

"It is difficult to point to the major reason for the failure of these plans. It may be that in cooperatives as is true in most public and governmental matters private initiative and talent cannot be matched.

"THE question as to the negotiability of trade acceptances bearing the notation: 'The obligation of the acceptor hereof arises out of the purchase of goods by the acceptor from the drawer. The drawee may accept this bill, payable at any bank, banker or trust company, in the United States, which such drawee may designate,' was raised in the supreme court of the state of Texas, and in view of the decision rendered by said court, it was deemed advisable to revise the form so that all doubt as to non-negotiability would be removed.

"The revised form, which bears the notation: 'The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer. The drawee may accept this bill, payable at any bank, banker or trust company in the United States, which such drawee may designate,' has the approval of the Federal Reserve Board.

"The revised form is being rapidly adopted throughout the country and can be obtained from the American Acceptance Council. Information as to the volume of business that is being done with trade acceptances is not available, but we believe, judging from the facts that have come to our attention, that substantial progress is being made with this valuable credit instrument, wherever it has been given a full, fair trial, it has proved its merits."

Relief for Farmers in Flood Areas Discussed

CONSIDERATION of the best means of affording relief to the farmers in the flooded section of the Mississippi River valley, the decision to start a contest to reward the chairman of the agricultural committee of the state showing the outstanding results in accomplishing something worth while for agriculture through the banks of the state and the advocacy of a plan for cotton planters to raise the one best variety of cotton and sell it at a market instead of an average price featured the session of the Agricultural Commission of the American Bankers Association at the Houston convention.

The commission discussed the various steps that had been taken in the banker-farmer movement in the various states and reviewed the progress made with the various projects that have been recommended.

ONE of the liveliest incidents that occurred during the whole convention developed at the session of the Agricultural Commission. Senator T. H. Caraway, of Arkansas, and a group known as "The Committee of Twenty-two," appeared at Houston with the avowed purpose of obtaining a hearing on farm relief measures, and particularly the McNary-Haugen bill. He recited that George W. Donaghey, former Governor of Arkansas, had written to the American Bankers Association on the Saturday before the convention opened, and had asked that a place be granted the farm relief advocates on the general program. As the program is arranged two or three months in advance of the first session, this was impossible, but it was suggested that, inasmuch as the Agricultural Commission was the proper committee of the American Bankers Association to consider proposals affecting the welfare of agriculture, Senator Caraway and his group were offered an opportunity to present their case before the Agricultural Commission.

Senator Caraway was given an opportunity to speak on the subject of the McNary-Haugen bill, and duly appeared, but instead of discussing the features of this proposed legislation, he devoted it to an attack on the American Bankers Association and bankers in general. Senator Caraway alleged that the blame for the President's veto of the McNary-Haugen bill should be laid at the door of the American Bankers Association, maintaining that if the bankers had got behind the measure it would have become a law. Other members of the visiting committee were permitted to speak, but their statements were more or less of a similar nature.

Before Senator Caraway and his group withdrew from the meeting, H. Lane Young, president of the Citizens and Southern National Bank of Atlanta, Ga., and a member of the Agricultural Commission representing the southeastern states, said that he wished to express his resentment over the manner in which the visitors had appeared. Although they had occupied forty-five minutes of the commission's time, Mr. Young told them, they had devoted this to the unjustified abuse of the American Bankers

Association and bankers instead of telling something of the farm relief measures which they were supporting.

Immediately upon learning of the action of Senator Caraway and his group, Melvin A. Traylor, President of the American Bankers Association, issued the following statement to the press:

"I understand that the representatives of the Committee of Twenty-two states that they wrote a letter to me asking for a place on the convention program. I never heard of the letter or saw it. I left home Oct. 20 from Chicago. There has been no attempt to communicate with me on the telephone on their part that I have any knowledge of. I know the gentlemen personally, and they know where I am. The program was closed at least sixty days ago. When Burton M. Smith, Chairman of our Agricultural Commission, informed me that they would like fifteen minutes on his program of the commission's meeting, I said by all means do so, as we are always willing to hear the other fellow's story. He gave them forty-five minutes. I am advised that the speakers used most of their time in vituperative attacks on the American Bankers Association.

"I wonder if the farmers of the country, who have been supplied with hundreds of millions of dollars of financial cooperation by the bankers, are willing to place their welfare in the hands of gentlemen whose particular business consists in being elected to office, or to the bankers, who have carried them through thick and thin, year in and year out, and are willing to continue to do so in the future. I am a farmer and a son of farmers, and I am in thorough sympathy with the farmers' problem. I am sorry that these gentlemen feel that they have not been properly treated. Nothing would give us more pleasure than to give them the opportunity to present their case, but this was not asked for in due order. In the past there have appeared on our program Mr. Lowden, who I think will be accepted as an outstanding representative of the agricultural relief viewpoint; Mr. Meredith, former Secretary of Agriculture; Dean Russell, of the Wisconsin Agricultural College; Secretary of Agriculture Jardine, and other outstanding leaders in agricultural thought. If there had been suggested to us a competent speaker for this field for the program of the present convention, we would have been glad to have placed him on it, but our program has long been completed and in type, and there was no way to do so under the conditions presented."

THERE are "tremendous opportunities" for improving the agricultural conditions of our farmers by more efficient farming that will reduce the cost of production, Dan H. Otis, director of the commission, stated. He presented figures showing that it costs some farmers three and four times as much as others to raise the same staples.

"We have been collecting some information as to the cost of producing the leading staple crops in the various states," he stated. "We find, for instance, that the cost of producing wheat in Kansas varies from

49 cents to \$1.92, a difference of \$1.42 per bushel. In a similar manner the cost of producing corn in Kansas varies from 37 cents to 99 cents, a difference of 62 cents. In Illinois we find a variation of from 30 to 80 cents, a difference of 50 cents. In Iowa we find figures showing a variation of from 15 to 75 cents, a difference of 60 cents, or 500 per cent.

"In Kansas oats varies from 44 cents to \$2.43, a difference of \$1.99 per bushel. In Colorado alfalfa varies from \$8.56 to \$18.45 per ton, or a difference of 115 per cent. In the same states sugar beets vary from \$4.32 to \$7.76, a difference of 79 per cent. Potatoes, from 59 cents to \$1.26, or a difference of 113 per cent.

"In Colorado feeder lambs vary in the cost from \$10.93 to \$25.63 per cwt., or a difference of \$14.70. In the conduct of ranges on the plains of Colorado rates on the investment vary from minus 28 per cent to plus 7.6 per cent. In the Montana ranges from minus 2.3 per cent to plus 11.4 per cent. In Illinois the cost of producing pork varies from \$6.82 per cwt. to \$17.16, a difference of \$10.34 per cwt.

"We find that the costs vary very greatly with the yield or production per unit. In Arkansas a ten-bushel yield of wheat costs \$1.59 per bushel, while a twenty-five-bushel yield costs only 80 cents per bushel, a difference of 79 cents per bushel. In a similar manner a nine-bushel yield in Kansas costs \$1.75 per bushel, while the nineteen-bushel yield costs \$1.06, a difference of 69 cents per bushel. Corn in Kansas varies with a fourteen-bushel yield costing \$1.30 to a thirty-bushel yield costing 56 cents, a difference of 74 cents per bushel. Oats in Arkansas varies from a fifteen-bushel yield costing 83 cents to a sixty-bushel yield costing 26 cents, a difference of 57 cents per bushel.

"Clover and timothy hay vary from a one-half-ton yield at a cost of \$22.12 to a two-ton yield costing \$8.25, a difference of \$13.87 per ton. Cotton in Arkansas varies from a 100-pound yield at 30 cents per pound to a 300-pound yield at 13 cents per pound, a difference of 17 cents per pound.

"Butter fat in Wisconsin varies from 200 pounds per cow, which barely pays the cost of keep, to 400 pounds, that cost 27 cents per pound.

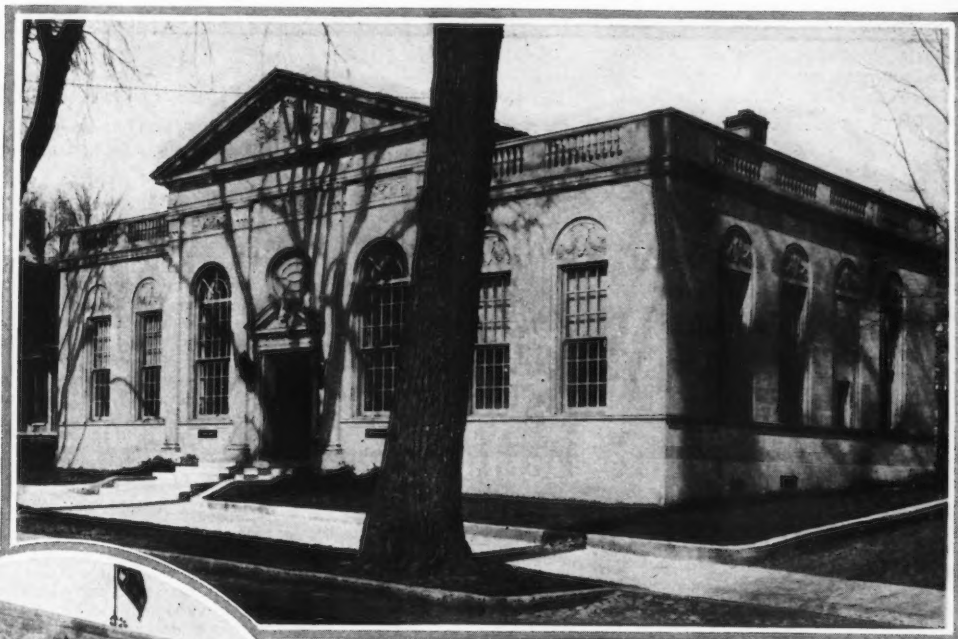
"These figures indicate that there are tremendous opportunities for improving the agricultural conditions of our farmers by more efficient farming that will reduce the cost of production."

In order to stimulate greater interest among the bankers, Mr. Otis suggested that the chairman of the agricultural committee of the one state that has done the most outstanding work in agriculture be invited to attend the Philadelphia convention of the American Bankers Association as the guest of the Agricultural Commission, with all expenses paid. The decision as to which state shows the largest net tangible results will rest with the Advisory Council of the Agricultural Commission. The plan of the contest was approved, with the understanding that details and methods of operation

(Continued on page 378)

Winsted Savings Bank,
Winsted, Conn. Hogg-
son Bros., Architects and
Builders. Indiana Lime-
stone

(In Circle) Philadelphia
Savings Fund (Branch),
Philadelphia, Pa. Mellor,
Meggs & Howe, Archi-
tects. Exterior is VA-
RIEGATED Indiana
Limestone; interior Select
Gray Indiana Limestone



Now—They Build for Beauty

Because It's Proved Beauty Pays!

The business world has turned to Indiana Limestone because natural stone construction is the best investment

AN outstanding development in modern architecture is the increased use of natural stone. Always the architect's choice where beauty and lasting qualities were the prime aim, now natural stone has become the preferred building material for all types of commercial structures as well.

The natural stone most used for building purposes is Indiana Limestone. This dense, fine-grained, light-colored stone is easily worked, yet is practically everlasting.

Most of the finest stone buildings in America are of Indiana Limestone from the quarries of this company.

The extent and central location of the Indiana Limestone Company quarries

make possible prices that compare favorably with those of any other natural stone and even with those of substitutes.

Prospective builders are assured a service on Indiana Limestone second to none. The Indiana Limestone Company is a consolidation of 24 companies. With assets of over \$46,000,000.00, it has facilities for handling any number of contract operations.

Write for booklet

We will gladly send an illustrated brochure, showing banks and other types of buildings. When you write, please tell us what type of building you are interested in. Address Box 776, Service Bureau, Indiana Limestone Company, Bedford, Indiana.



Detailed view of beautifully carved entrance, National Manufacturers' Bank, Neenah, Wis.

INDIANA LIMESTONE COMPANY

General Offices: Bedford, Indiana

Executive Offices: Tribune Tower, Chicago

When writing to advertisers please mention the American Bankers Association Journal

THE seat of our national wealth continues to be agriculture. Agriculture is also the basis of community wealth.

The progressive local banker builds local farming by precept and example.

INTERNATIONAL HARVESTER COMPANY
606 So. Michigan Ave. of America
[Incorporated] Chicago, Illinois

McCORMICK-DEERING

Farm Operating Equipment, Sold and Serviced Through 92 Company-Owned Branches and 13,000 McCormick-Deering Dealers in the United States.



Mr. Roy Woodruff of Sullivan, Illinois, an enthusiastic power farmer, is substituting improved farm machines for hand labor wherever possible. He is shown at the wheel of the McCormick-Deering 15-30 Tractor, which is hitched to a No. 8 power-drive McCormick-Deering Harvester-Thresher. This modern method of combined harvesting and threshing is saving the farmers 20 cents per bushel over the usual methods in the harvesting of grain.

Excerpts from a letter —

one of a strong and practical series issued to farmer customers by the First National Bank of Tahlequah, Okla.

Dear Sir:

August 30, 1927

The officers and directors of the First National Bank of Tahlequah have always advocated diversified farming as security against crop failure.

The primary aim of the farmers is not only to make a living for themselves but to produce crops in such quantity that a surplus may be raised and marketed hoping thereby to realize a profit. The major crops in Cherokee County, for the past, consist of wheat, oats, corn and cotton. These crops oftentimes pay, but more often they do not. This year we have seen disappointment to the oats and wheat grower and the outlook for cotton is about the most distressing that our farmers have ever experienced. Corn is about the only crop apparently that will yield anything like a satisfactory return.

Some farmers may not be able to meet their store accounts this year due to the generally poor prospects for cotton. From every indication the cotton crop is going to be the smallest in years although the price indications are encouraging. It is not too soon for each and every farmer in Cherokee County to consider seriously his situation and endeavor to make some plans that will enable him to hold on to his possessions. That is, keep such part of his live stock, especially his milk cows and young cattle, brood sows, and hogs, because they are the soundest and best investments on the farm. With abundant forage crops of all kinds and perhaps the biggest crop of corn raised in years, the farmer with cattle and a few brood sows, properly handled, will turn into a prosperous condition in the near future.

We unhesitatingly recommend the purchase of cream separators even though you are milking but two cows. By doing this it will soon be discovered that cows are a paying investment on the farm, affording food for the family and will produce a cash income every week in the year. Then more milk cows will be added and full use of the cream separator realized.

The First National Bank of Tahlequah is ever alert to aid in the development of this county and we shall deem it a pleasure to have you consult us at any time. We shall be glad of the opportunity to lend every encouragement necessary in aiding the farmers of our county to get upon a sound basis and to follow a safe policy.

Very respectfully, D. O. SCOTT, President.

National Bank Division

(Continued from page 329)

numerous towns and cities and rural districts in which there are national banks, but no other corporations with fiduciary powers where people wish to create trusts and appoint executors, trustees and guardians. It is obvious, therefore, that national banks are in a position not only to carry fiduciary services into every nook and corner of the United States, but that the advantages of so doing will accrue alike to the public and to the banks.

"Aside from the McFadden-Pepper Bill, no measures directly affecting national banks were given serious consideration by Congress in its last session. A number of measures were introduced, but not acted upon. Guaranty of bank deposits, a topic which furnishes a great deal of political provender, was the subject of a number of bills introduced, but at no time threatened serious trouble. It goes without saying that the guaranty of bank deposits will always be a fruitful subject for ambitious politicians. Notwithstanding the fact that it has proved an entire failure in every state in which it has been tried, still it possesses that attractive feature, which appeals to all mankind, of getting something for nothing at the expense of somebody else.

A New Safeguard

"IN this connection might well be mentioned a proposal which, though in no sense a guaranty scheme, is thought of as possibly affording greater protection to depositors in national banks. It emanated from Washington and was outlined in one of the well-known financial publications several months ago. It was given wide publicity and was suggested as a possible additional safeguard for depositors. It would provide a fund of fifty millions of dollars, which would not be reduced at any time, to save weak banking institutions and to prevent failures.

"Briefly summarized, but not worked out in detail, the idea advanced is that when the capital of a bank becomes impaired and the loss is not immediately made good, the comptroller's office would close the bank, appraise the assets and dispose of such of them as are salable at par, borrow from the fifty million dollar fund a reasonable amount on the remaining assets and with the funds thus gathered pay off as large a percentage of the deposits as possible. The bank would then be liquidated in due course, the amount borrowed plus 6 per cent would be returned to the revolving fund, and out of the remainder of the assets the last of the creditors would be paid and the balance turned over to the shareholders. The theory is that were the comptroller permitted to step in at the first sign of impairment of a national bank and before actual insolvency, the loss to creditors would be practically nothing.

"The plan is not a guaranty, for conceivably there might be instances in which the assets, even though taken immediately upon discovery of the impairment of the capital, would not be sufficient to pay all creditors. Apparently it is felt, though, that in practically every instance the assets, together with the additional liability of shareholders,

would make possible full payment of all obligations.

Provision of the Fund

"THE question of securing the fifty million dollars has not been given much consideration, although it has been suggested that it might be obtained either from direct appropriation or through amendment to the Federal Reserve Act, making it possible for that amount to be taken from the surplus of the Federal Reserve System. It is not in any way proposed that the strong national banks should be made to pay for the protection of the weaker members of the system. It is understood that the Comptroller of the Currency has not passed upon or given his approval to any plan of this character.

"This proposition has been discussed by the Executive Committee of the National Bank Division, and there is considerable variance of opinion on the advisability and feasibility of the plan. I may say, however, that this committee, including your President, recognizes the fact that any additional protection or safeguards which can be given to depositors in banks should be provided. Bank failures have been so prevalent and have resulted in such heavy losses during the past few years that bankers who are alive to the demands of the time all recognize that everything possible must be done to make deposits secure. A great advance has been made by the Comptroller's Department in recent years in the examination of national banks, and the conscientious bankers of the country are devoting their efforts in every way possible to correct fallacious banking methods, but there is still room for improvement.

"Another problem to which your Executive Committee has been devoting some time and consideration is the proposition of the Treasury Department to reduce the size of paper currency. This plan provides for the reduction in size of all classes of currency except national bank notes, which are to be left in their present dimensions. The Executive Committee has taken the position that this would produce a very cumbersome currency. It would be extremely inconvenient and tedious to handle, and would operate against the popularity of national bank currency on account of the disparity in size. A most earnest protest has been filed with the Treasury Department against any change in the size of currency unless national bank notes are included.

Discrimination Seen

"THE opinion has been advanced from some sources that the known attitude of the Treasury Department in opposition to national bank note circulation is one of the reasons why two sizes of currency are planned. National bank notes being larger, would undoubtedly become unpopular as a circulating medium and automatically be forced out of circulation. It must be recognized by national bankers that it is a matter of only a few years until all United States bonds available as security for national bank circulation may be retired. The three classes of bonds which may be employed for that purpose are about six hundred million dollars of U. S. Consols callable in 1930; fifty million of U. S. Panamas due in 1936 and

twenty-six million of U. S. Panamas due in 1938. All of the Panama bonds are callable at any interest payment date, and may be retired at any time. It would seem to be not an unreasonable request on the part of the national banks that during the comparatively few years they are yet sure to have national bank circulation it be not unfairly discriminated against.

"For a number of years banks have been confronted with gradually declining earnings. One of our problems, therefore, is the rehabilitation of our institutions to such an extent as to insure their continued existence. This reduction in earnings is brought about largely by a supply of credit funds greater than the demand, and this, in turn, is due in a great measure to the gradual encroachment of our Government upon the business of lending money.

"If our Government presumed to become a competitor in other lines of business to the same extent that it is now in actual competition with banking there would be such a wave of protest as would cause our legislator politicians to take notice and put an end to the constantly increasing practice of passing laws to the advantage of certain classes of business and to the detriment of other classes.

The Government's Function

"IT is not the function of government to give special advantages to any groups. Rather it is the function of government to regulate the activities and practices of individuals so as to give equal opportunity to all. The economic balance of our nation rests upon the success of individual effort, and each violation of that underlying principle makes the balance proportionately more difficult to maintain. The common good is aided most by observance of the principles for which government was created, and I rest securely in the belief that with their guidance we cannot fail.

"Now, as I approach the time for passing over to other hands the responsibilities of the presidency of the National Bank Division of the American Bankers Association, I experience a feeling of relief, and I confess also a feeling of regret. The presidency of this Division entails much work and sacrifice, but it is not without its compensations. It has made me very happy indeed to have the opportunity to work with the wholehearted and always reliable gentlemen who have assisted me, and to meet more frequently and become better acquainted with the staunch and generous members at large. Their interest in the work of the Division, and their contributions to the successes achieved call forth instinctively my highest praise and my warmest personal thanks. I can wish for my successor nothing better or more comforting than their continued goodwill and support."

Tributes to Mr. Carey

TRIBUTE to Mr. Carey as a banker and fellow citizen was paid by W. H. Harrison, president of the Union National Bank of Wichita. Mr. Harrison said that Mr. Carey entered the banking business in Wichita thirty-five years ago with a capital of \$25,000 and three employees and when he died he had the largest bank in the State of

Kansas, with a capital of \$1,000,000 and a surplus of \$1,000,000.

The Committee on Resolutions, consisting of W. C. Wilkinson of Charlotte, N. C.; H. J. Haas, Philadelphia, and R. E. Harding, Forth Worth, Tex., submitted the following tribute to Mr. Carey, which was adopted by a rising vote:

"It is with unspeakable sorrow that the National Bank Division of the American Bankers Association, in annual convention assembled, learns of the death of its president, Mr. Charles W. Carey. His long service in the American Bankers Association, and in the National Bank Division thereof, made him a familiar and a popular figure at bankers' meetings. His years of labor developed for him a wide circle of staunch friends and acquaintances, who knew him at work and at play; to whom he became endeared for his cordial and considerate manner, but whose esteem he held chiefly because of the earnestness of his efforts wherever directed, and because of the strength of his convictions.

"The pages of American Bankers Association and National Bank Division history hold many evidences of the high character of Mr. Carey's work and the accomplishments of those organizations bear the multiple impress of the splendid service he gave. His contributions aided materially in attaining the goal set, and his genial manner warmed the atmosphere of the entire Association.

"The officers and the entire membership of the National Bank Division mourn the passing of that noble soul, thankful, however, that his example and the memory of his unselfish devotion to duty and his friends and to his ideals will strengthen our purposes and stimulate our loyalty to our trusts.

"Resolved, That these resolutions be made a part of the minutes of the National Bank

Division, and that a copy of them be suitably engrossed and sent to the members of his family."

The Division heard addresses by H. C. Nicholson, vice-president of the Packers National Bank, Omaha, Neb., on "Bank Investments"; Thornton Cooke, president of the Columbia National Bank, Kansas City, Mo., on "Taxation—National Safeguards," and M. H. Cahill, president of the Utica National Bank & Trust Company on "The Financial Statement—Its Purpose and Character." All of these are printed elsewhere in this issue. Melvin A. Traylor, President of the American Bankers Association, and Thomas R. Preston and Craig B. Hazelwood, First Vice-President and Second Vice-President respectively of the Association, made brief talks in which they praised the work of the Division.

Protest Currency Plan

A RESOLUTION setting forth the opposition of national bankers to the proposal of the Treasury Department to reduce the size of currency and not of national bank notes was adopted.

"A disturbing feature of the plan is that while all other notes are to be made smaller, national bank currency will remain unchanged," the resolution read. "This must necessarily mean two sizes of currency in circulation continuously or the elimination of national bank notes in 1930 when the U. S. 2 per cent. Consols bearing the circulation privilege may be retired. One of these contingencies would be sure to arise with the adoption of the Treasury Department plan, and both of them are looked upon with a great deal of disfavor.

"The reasons for opposition to the use of two sizes of currency are so obvious as to require no elaboration. Also, the elimina-

tion of national bank notes is not called for by any sound economic or financial policy. On the contrary, there are numerous reasons why national bank currency should be retained.

"The National Bank Division of the American Bankers Association, in annual convention assembled here, respectfully, but with a strong conviction of the correctness of its position, expresses its opposition to this plan and to any other plan which seeks to change the size of less than all of our currency, or which contemplates the retirement of national bank notes."

The New Officers

WITH the election and installation of the following officers, the Division concluded its session:

President—E. A. Onthank, president, Safety Fund National Bank, Fitchburg, Mass.

Vice-President—E. H. Sensenich, president, West Coast National Bank, Portland, Ore.

Executive Committee for three years—First Federal Reserve District: E. S. Wolfe, president, First National Bank, Bridgeport, Conn. Fifth Federal Reserve District: Alan T. Bowler, vice-president, American Exchange National Bank, Greensboro, N. C. Seventh Federal Reserve District: Gwynn F. Patterson, vice-president, Indiana National Bank, Indianapolis. Twelfth Federal Reserve District: Arch W. Anderson, vice-president and cashier, Los Angeles-First National Trust & Savings Bank, Los Angeles. For term ending 1928—Sixth Federal Reserve District: Robert Strickland, Jr., vice-president, Fourth National Bank, Atlanta. For term ending 1929—Eighth Federal Reserve District: A. O. Wilson, vice-president, State National Bank, St. Louis.

Educational Foundation Fund Subscriptions

MORE than \$445,000 of the half-million-dollar goal for the Educational Foundation Fund of the American Bankers Association, to be used in establishing scholarships in institutions of higher learning in the various states, has been paid or definitely pledged, according to the report of the Foundation Trustees made during the Houston convention. Only \$60,542.75 is lacking to complete necessary funds to found these scholarships, and two months still remain to secure this amount.

An analysis of the report shows that of the combined quotas of the states, \$252,375 has been secured—\$173,500 from individuals, \$50,000 from the American Bankers Association, \$26,844.50 from the

American Institute of Banking, this being \$1,844.50 more than their quota. Sixteen states have already overpaid their quotas, they being: Alabama, Arkansas, Connecticut, District of Columbia, Florida, Illinois, Maryland, Michigan, Mississippi, Nevada, New Jersey, New Mexico, North Carolina,

Virginia, Washington, and Hawaiian Islands.

The following nine states have paid their quotas in full: Arizona, Delaware, Idaho, Kansas, Minnesota, Louisiana, Oregon, Rhode Island and Utah. The eight states of Montana, South Dakota, Tennessee, California, Vermont, West Virginia, Wisconsin, and Pennsylvania have pledged their quotas in full. Seventeen states remain to complete their quotas. They are: New York, Texas, Ohio, Maine, New Hampshire, Indiana, Georgia, Oklahoma, Wyoming, South Carolina, Missouri, and Nebraska.

One hundred and seventy-four thousand dollars have been individual subscriptions.

AMERICAN BANKERS ASSOCIATION EDUCATIONAL FOUNDATION FUND \$500,000. INITIATED OCTOBER 1925 TO BE COMPLETED DEC. 31, 1927 SITUATION OCTOBER 26, 1927											
STATE			QUOTA	% RAISED	AMOUNT LACKING	STATE			QUOTA	% RAISED	AMOUNT LACKING
ALABAMA	2,125	105	INDIANA	6,000	53	MONTANA	1,075	100			
ARIZONA	450	100	IOWA	7,500	14	NEBRASKA	4,000	54	118.45		
ARKANSAS	1,975	105	KANSAS	4,250	100	NEVADA	225	116			
CALIFORNIA	15,500	100	KENTUCKY	3,500	15	NEW HAMPSHIRE	525	53	245		
COLORADO	1,675	19	LOUISIANA	3,000	100	NEW JERSEY	6,875	116			
CONNECTICUT	2,800	111	MAINE	1,000	56	NEW MEXICO	325	104			
DELAWARE	675	100	MARYLAND	3,500	102	NEW YORK	37,250	72			
D.C.	1,900	100	MASSACHUSETTS	8,750	36	NORTH CAROLINA	3,050	100			
FLORIDA	1,825	107	MICHIGAN	7,750	102	NORTH DAKOTA	1,400	34	930		
GEORGIA	4,000	48	MINNESOTA	6,500	100	OHIO	14,000	65	1804.40		
IDAH0	600	100	MISSISSIPPI	1,325	100	OKLAHOMA	2,750	45	1524		
ILLINOIS	70,375	100	MISSOURI	9,500	7	OREGON	2,675	100			
STATE TOTAL \$252,375 RAISED \$194,538.60 AMOUNT LACKING \$60,542.75						REMAINING 17 STATES					
AMERICAN BANKERS ASSOCIATION SUBSCRIPTION \$50,000. PAID											
INDIVIDUAL SUBSCRIPTION 30 at \$5,000. 150,000											
1 at 3,000. 3,000											
2 at 2,500. 5,000											
10 at 1,000. 10,000											
PAID OR SECURED BY COLLECTIBLE PLEDGES 174,000											
DUE ON DEFINITE DATE											
TOTAL RAISED \$445,371.60						TOTAL AMOUNT LACKING \$60,542.75					

How the funds have been subscribed for the educational foundation



Shaw-Walker Card Ledger Desks at Second North-Western State Bank, Chicago

The highest form of fire protection for your savings accounts

...“The highest form of fire protection ever built into a desk.” That’s what you get in the SHAW-WALKER Card Ledger Desk for savings accounts.

For it is constructed with *monolithic or poured insulation*—the same as is used in SHAW-WALKER executive safes. It is the only stock desk so insulated.

The top—a *solid piece of double-walled insulated steel*—forms a perfect watershed and locks automatically when closed. In case of fire during the day, simply pulling the top down protects your ledger cards. At night you can leave them in this desk with the same feeling of security as though they had been placed in your permanent vault.

Houses 15,000 Ledger Cards in Less than 15 Square Feet of Floor Space. Extra capacity for growing savings departments without increased space—ledger and signature cards at just the right height for the convenient and rapid handling of customers’ transactions—are among its other advantages. Used and endorsed by scores of prominent banks.

Write for further information about the SHAW-WALKER Card Ledger Desk; and samples of modern ledger systems, machine or hand posted; also for a free copy of “MODERN BANK OPERATING METHODS”, a valuable new 48-page treatise on bank systems and equipment. Address: SHAW-WALKER, Bank Department, Muskegon, Michigan.

**“Built Like a
Skyscraper”**



Bank Systems, Supplies, Furniture and Equipment

American Exchange Irving Trust Company

NEW YORK

Statement of Condition, September 30, 1927

RESOURCES

Cash on Hand and Due from Banks	\$97,582,637.35
Exchanges for Clearing House	119,991,369.42
Call Loans, Commercial Paper and Loans eligible for Rediscount with Federal Reserve Bank	150,754,168.07
United States Obligations	34,700,356.66
Short Term Securities	36,576,178.53
Loans due on demand and within 30 days	96,667,316.67
Loans due 30 to 90 days	58,982,396.87
Loans due 90 to 180 days	37,737,726.26
Loans due after 180 days	8,140,261.15
Customers' Liability for Acceptances (anticipated \$2,126,326.00)	37,584,431.78
Bonds and Other Securities	10,690,191.26
New York City Mortgages	9,367,109.68
Bank Buildings	3,544,397.45
	<u>\$702,318,541.15</u>

LIABILITIES

Deposits	\$549,401,637.29
Official Checks	46,550,023.05
Acceptances (including Acceptances to Create Dollar Exchange)	39,710,757.78
Discount Collected but not Earned	1,217,718.74
Reserve for Taxes, Interest, etc.	2,056,851.46
Dividend Payable October 1, 1927	1,120,000.00
Capital Stock	32,000,000.00
Surplus and Undivided Profits	30,261,552.83
	<u>\$702,318,541.15</u>

Report of the Protective Committee

By JAMES E. BAUM

Deputy Manager American Bankers Association

REVIEWING the work of the Protective Department during the year ended Aug. 31, 1927, the Protective Committee finds that member banks kept close to their remarkable record of 1926 in stopping daylight robbery, although renewed activity by night burglars in the Mississippi Valley and southwestern states, and bandit outbreaks in Missouri and Oklahoma, have spoiled an otherwise favorable report.

Against the 112 daylight robberies and twenty-nine burglaries committed last year, there were 114 holdups and sixty-two burglaries reported by member banks this year. This sudden return of the bank burglar did not materialize until the late spring and summer, when forty-six of the sixty-two night attacks occurred.

In contrast to this sharp increase in the number of burglaries, there is some comfort in the fact that the loot taken in the twenty-nine attacks of 1926, namely, \$122,353, dropped to \$113,042 in the sixty-two burglaries committed this year. Also, in the current year non-members, which total less than half the number of member banks, suffered 113 holdups, notwithstanding the fact that the Association membership embraces as many banks equally isolated and unprotected as are the non-members.

IF "misers arise early in the morning and burglars get up the night before," the reawakening of the bank burglar sounds a warning against the continued use of old-fashioned, "soft" safes and vaults which are made obsolete by the torches, drills and explosives employed by the burglar of today. It is an open record, more so to the burglar than anybody, that these types yield readily to the yegmen's tools. Our investigations also prove that nearly all the burglaries committed this year succeeded only against weak safes and vaults that had long since become obsolete for banking. Only modern equipment will baffle the bank burglar, as evidenced by the increased number of burglaries which were frustrated during recent years.

With a continued reduction in forgeries, swindles and other paper frauds, the Committee is pleased to note a reduction in the total number of crimes reported for investigation during the past year. Our detective agents caused the arrest of 278 of the 420 bank criminals apprehended during the year, 135 of these being convicted and imprisoned. In addition, there were 130 convictions of prisoners who were arrested in the previous year.

Gratifying as the results of the Association's system of conducting nation-wide and relentless investigations have been in the pursuit of bank criminals, the Committee regrets to find a growing tendency on the part of the banks with insured losses to compromise or relent in the prosecution of confessed criminals. If equally intensive measures toward prosecution were followed by the casualty and surety companies which

underwrite the losses suffered from criminal attacks, there would be fewer bank criminals at large and less inducement for the insured banks to settle by restitution, or otherwise condone the misdeeds of criminals.

The spread of crime in this country warrants no compromise in the prosecution of criminals, and the Committee deprecates the fact that the possibilities of salvage on an insured loss too often seem to determine the underwriters' action in prosecuting those responsible for such losses. Unless the prospects for salvage are promising, it is not uncommon for the insurance companies to do little more than spread the loss among their co-insurers.

IT is generally recognized that adequate insurance coverage gives the safest form of protection against the hazards which are peculiar to banking, but over-indulgence or excessive reliance upon insurance for indemnity of loss breeds negligence, and crooks thrive on the opportunities which negligence creates. Although this attitude of leaning upon insurance contracts as a cure-all for crime is as old as insurance itself, it not only continues to invite crime, but also violates the principles of sound underwriting. Bankers have been no exception in adopting this form of subsidizing crime as a business risk, and your Committee believes that the underwriters have the power of applying the best remedy, namely more intensive effort toward apprehending professional criminals and stronger insistence upon their prosecution in strict accordance with the law. Believing that insurance protection should not be pitted against the prevention and punishment of crime, the Protective Committee would welcome prompt and suitable action by the casualty and surety companies toward eliminating this evil, which seems to grow in proportion to the increased volume of insurance carried.

As already reported at the spring meeting of the Executive Council, the Protective Committee approved the principles of two bills which were introduced in and expired with the Sixty-ninth Congress. They were designed to punish the transportation of stolen property and concealable firearms in interstate or foreign commerce. Uniform state legislation was also proposed by the Committee to (a) restrict the sale, possession and use of concealable firearms and (b) lower existing barriers against the conviction of criminal receivers of stolen property. Drafts of these bills were presented to, and approved by, the Federal and State Legislative Councils for the consideration of the Administrative Committee.

For the past four years the Protective Committee has repeatedly pointed to the need of (1) modernized criminal laws and (2) greater efficiency, equipment and man power in the police work, including state-wide police, by the constituted authorities as being the two outstanding needs in curbing

crime. The practical value of these recommendations can only be measured by the results in one state. With this program only partially followed in New York for one year, serious crimes have been reduced 50 per cent.

OF the 227 daylight holdups of member and non-member banks this year, seventy-nine attacks, or more than a third of the total for the entire country, were directed against banks in but three states, California, Michigan and Kansas. Although the effect of lawmaking as a deterrent against lawbreaking is limited to the extent of its enforcement, hope may be taken from the fact that Michigan has recently passed sterner laws against the habitual offender, as have California and Kansas, where the penalties are more severe than in New York. Similar legislation has also been enacted in Indiana.

Bankers must recognize that professional criminals have little respect for state boundaries except as exits for escape. Their prison sense of humor is too keen to risk quick arrests and sterner punishment so long as other states provide more fertile fields with their easier laws and inadequate, disconnected means of enforcement. It is nothing new to find bank crimes more frequent where the resistance is weaker, and the remarkable progress of bankers' vigilante campaigns in the central west, and modernized laws in other states, are merely signs of the times. Unless other states adopt similar measures of prevention, they can expect to suffer the reflex effect which speedy punishment elsewhere has upon criminals on the move. If example were necessary, the experience of banks in Missouri, Nebraska, Ohio, Oklahoma and Texas may be cited. These five states accounted for one-third of all the bank burglaries and holdups committed during the past year.

From a nation-wide standpoint, as the Committee views the situation, the banking fraternity barely held the ground gained last year in its warfare against criminality. With its unusual strength in organization and equipment available to reduce, if not eliminate, the criminals' advantage of surprise attack, bankers are in a position to progress faster in suppressing crime if they will but utilize the means at hand.

The Directors' Interest

The Economic Policy Commission's study of the causes of the bank failures, which is printed in this issue, refers to the great responsibility of bank directors. JOURNAL articles will aid in sharpening the interest of directors in the affairs of their banks if every issue is placed at the disposal of each director. That is one reason why the Group Subscription rate was established. Send the JOURNAL to the home address of each of your directors for a year beginning with this issue.

SPEED!



KALAMAZOO BINDER TRAYS

were specially designed for mechanical accounting, and where maximum results are being obtained you will find "Kalamazoo" is a principal factor in securing the desired speed, ease and safety.

EASE!



SAFETY!



COMPACTNESS

If you are now using or expect to use bookkeeping machines, you will find it advisable to consider carefully the question of equipment.

At your request, we will submit Kalamazoo Binder trays and their applications, for your inspection. Write us.



KALAMAZOO

LOOSE-LEAF-DEVICES-AND
ACCOUNTING-SYSTEMS

When writing to advertisers please mention the American Bankers Association Journal



Exclusive Features that enhance Results

Kalamazoo Binder Trays for mechanical accounting, like all other Kalamazoo devices, embody in their construction many exclusive features that mean better work and greater convenience.

When the record is being posted, the sheets are in easy fingering position facilitating the location of affected accounts. A positive separation of posted and unposted accounts is provided to maintain sheets in their proper order.

When the record is posted only a few seconds are required to change it to a securely bound book, admittedly the best form of record for proving and checking. Compact, portable, neat, Kalamazoo Binder-Trays enable you to get the results to which you are entitled and desire.

This equipment is the result of careful analysis of the requirements by men who constantly maintain a contact with record keeping methods in all classes of business in all parts of the country. These men have back of them more than a score of years active experience in the development and application of the loose leaf method to the requirements of present day business.

When you install "Kalamazoo" Binder Trays for machine accounting, you can be sure that you are putting to work a device that is entirely different from the ordinary loose leaf device—that difference being apparent in the exclusive features which enable you to obtain maximum results with minimum effort and expense.



KALAMAZOO LOOSE LEAF BINDER CO.

Division Remington Rand, Inc.

Factories at Kalamazoo, Mich., and Los Angeles, Calif.

Sales Offices in Principal Cities

KALAMAZOO

LOOSE-LEAF-DEVICES-AND ACCOUNTING-SYSTEMS

When writing to advertisers please mention the American Bankers Association Journal

Era of Sounder Banking

(Continued from page 322)

how to make banking safe for all concerned.

Several years ago the State Bank Division outlined a definite policy as to its activities in order that there might be a coordinated and successive line of endeavor which should be carried on until tangible results were obtained.

Some of the direct banking problems requiring legislative action, to which much time and effort have been given by the Division, are:

Increasing the minimum capital requirements of banks to \$25,000 (of the 2235 banks which have closed during the 1920-1926 period, 1486 were in towns of 1000 population or less, presumably with small capital equipment)

Granting bank commissioners or banking boards sole power to charter new banks

Creating banking boards to act in an advisory capacity with the bank commissioner

Increasing the compensation of bank commissioners, lengthening their terms of office to six years with power to appoint necessary deputies and examiners, and making the office non-political

Empowering bank commissioners to take complete charge of and liquidate insolvent banks as distinguished from liquidation through the courts

Prohibiting, or limiting an officer or director of a bank from borrowing from his bank unless his collateral is first approved by a majority of the board of directors

Making the issuance of worthless checks a misdemeanor with specific penalties

Urging uniform state bank legislation and greater efficiency in state bank supervision.

All, or nearly all, of these subjects have been presented to bankers in pamphlet form during the past year and have met with appreciative response from all sections of the country. In carrying on the work, we have had the cooperation and active support of many of the bank commissioners. In one instance the bank commissioners of twenty-seven states ordered quantity lots of a pamphlet for distribution to the various state legislative committees.

ONE important factor of safety has been neglected by many banks in the past, and in many instances the neglect continues, and that is the diversification of loans. It is a violation of one of the fundamental principles of safe banking if the loans are not diversified. It is self-evident that if a bank lends all of its funds to one line of industry that it must suffer all the fluctua-

tions attending upon that particular line of business. If conditions become bad in that line, the bank loans reflect it. To lend all of their funds upon the resources of their immediate vicinity seems compulsory upon many small banks in the rural districts, but no one can maintain, in view of our recent experience, that the practice is sound, and sound banking practice is one of the things most urgently needed.

There is one underlying, fundamental reason why many banks fail and that is their inability to liquidate the loans previously made. That is a bromide, and it is acknowledged as being such, but none can deny the truth of it. The trouble in some communities is that many of the loans are not loans at all in the strict interpretation of the term, but rather adventurous advances upon the crops of the country tributary to the banking location, which are repaid if, as and when the commodities are safely harvested, and profitably marketed. Otherwise, the bank extends the note and prays for better conditions the following year. It is usually not a difficult matter to weather one year of crop failure, or low prices, but a succession of them is largely responsible for the high rate of bank mortality since 1920. It would lift a tremendous load, in times of stress, if all banks would carry something in the way of a secondary reserve.

One difficulty, one contributing factor, to less cautious methods in the small communities, is the strife for business, and the bitterness and the jealousies which it engenders. I am familiar with more than one situation where the local bankers have not spoken to each other for years, and where, as a matter of so-called principle and established custom one bank is against everything the other bank is for.

OF all trades, callings or professions between the members of which there should be mutual confidence and respect and a willingness to assist through an exchange of information, there is none in which these things are of greater consequence than in the banking business. Were this done, in many instances duplication of borrowing, and consequent losses would be avoided. I am emphatically for the organization and

maintenance of county or regional clearing houses, and I hope each one of you will encourage the movement wherever and whenever possible. It may surprise some of you to know how many of your customers are borrowing from other banks. I think the record is held by one bank customer who borrowed from seven different banks without his activities being disclosed until a county clearing house was established. Then the interested banks got together, bestowed the championship belt upon the individual, took their losses, and were unanimous for an interchange of information thereafter.

There is another thing which I would like to suggest for your consideration and that is the segregation of savings deposits. Each and every depositor is entitled to, and should enjoy, the same protection. Is there any difference in the object and purpose of a savings account, no matter where deposited? The mutual savings bank carries on its business under the most rigid restrictions as to the character of its loans and investments. These restrictions were devised for the protection of the depositor who was visualized as a person of small means, accumulating by dint of sacrifice a reserve for protection against old age or disaster. Few, if any, restrictions are to be found in the vast majority of banks which today are accepting savings deposits. The sole restriction remaining in many cases, that of notice of withdrawal, is for the protection of the bank, and not the depositor. We should not be permitted to mingle savings deposits with demand deposits, and lend them for commercial purposes. We should segregate savings deposits from all other deposits, describing the loans and investments for such funds, and give a first lien to the depositor upon these segregated assets.

It has happened in the case of a number of failed banks, that commercial depositors, being in closer touch with conditions, have largely withdrawn their deposits, leaving the savings depositors to bear the greater portion of the loss. Moreover, a bank in difficulties and striving to keep going, could, and usually does, demand notice of the savings depositor while it uses its best and most available assets to meet the withdrawal of demand depositors.

Relief for Farmers

(Continued from page 368)

would be presented and considered at the Spring Meeting in 1928.

What should be done to relieve the farmers in the flooded area of the Mississippi Valley was discussed by L. L. Judice, vice-president of the Bank of LaFayette & Trust Co., of LaFayette, La. Mr. Judice maintained that the Federal government, by its action, should make the recurrence of such a disaster on such a vast scale impossible, and that Congress should be further petitioned "to take over the river problem and to relieve the local tax-paying bodies who are in many instances unable properly to defend themselves, and must consequently expose others to flood disaster."

The Red Cross has done a great work in saving life and property and in helping

the poor and the small farmer, he said, but something must be done to rehabilitate the destroyed property of the landlords, to re-establish the credit of the merchant who has lost his advances, and to set up the values of the collateral held by banks in the flooded territory, he added. The key to this situation is with the bankers of the flooded areas, Mr. Judice stated, but he explained that while they must take up the work when the Red Cross leaves off, they face a timid correspondent, and their paper has deteriorated in value.

"Personally," he told the commission, "I believe that it is the duty of Congress to come to the relief of the submerged and especially of the agriculturist when his distress is such as to threaten the welfare of the state. A revolving fund placed in the hands of the Treasurer or the Federal banks, to be loaned on a long term at a nominal rate of interest to banks which are carry-

ing the load, safely margined, would not be a radical departure, as there is a precedent. Banks receiving money in turn would carry the debtor on the same terms and have ample facilities to finance further efforts. In less than ten years every loan would be repaid. The flooded regions would start forward with a rebound because conditions warrant better crops, and the intelligent, the adventurous, the able would remain at their post of duty and make the country flourish.

THE interests of the cotton planters would be best served if they would grow the one best variety of cotton—a longer staple cotton—and then pool it so that the buyers would be willing to pay a market price for that particular variety, C. H. Alvord, Director of Extension for Texas, College Station, Tex., told the Agricultural Commission.

May the Friendships of October Grow Stronger Through the Years



IF THE THOUSANDS of delegates to the A. B. A. Convention enjoyed Houston as much as Houston enjoyed meeting and entertaining them, then the Texas Gulf Coast Metropolis believes that the great financial gathering was indeed a success.

Houston, honored by the acceptance of her invitation by so many of the nation's financial leaders, is the better for the bankers' visit.

The new friendships, the broadening contacts, the helpful thought stimulated by the gathering together of so many of the keenest financial minds in the United States, has left its lasting impress on the South Texas center—an impress which Houston sincerely hopes will be broadened and deepened by the ever continued friendship and interest of those who were her guests in October.

ASSOCIATED BANKS *of* HOUSTON

FEDERAL TRUST CO.
FIRST NATIONAL BANK
GUARANTY NATIONAL BANK
GUARDIAN TRUST CO.

HOUSTON NATIONAL BANK
NATIONAL BANK OF COMMERCE
SAN JACINTO TRUST CO.
SEAPORT NATIONAL BANK

SECOND NATIONAL BANK
SOUTH TEXAS COMMERCIAL
NATIONAL BANK
STATE NATIONAL BANK
UNION NATIONAL BANK

In Chattanooga



It's the Hamilton Banks
when you want a collec-
tion service that com-
pletely covers the South.

We will welcome an
opportunity to explain
our service.

HAMILTON NATIONAL BANK
HAMILTON TRUST & SAVINGS BANK

T. R. PRESTON, *President*

Chattanooga - - - Tennessee

RESOURCES OVER \$25,000,000.00

Gold Bricks

(Continued from page 337)

with the investor's money, and it is this fact that gives rise to the axiomatic principle that "the client of a bucket shop loses coming and going."

The reason is simple. If the stock market goes down, the investor's margin is wiped out, and he loses. If the market goes up, the bucket shop operator, having failed to purchase the security for the customer's account, is unable to produce the stock or the money, is caught "short," and usually takes the bankruptcy or receivership route, and the investor loses again.

A "Boiler Room" Case

THE phone room or "boiler room," as it is known in stock jobbing parlance, presents a most interesting study in human psychology. I happened to be in one of our large office buildings one day, and while going through the corridor I noticed an interesting thing on the door of one of the corner rooms. A name there attracted my attention. Now, stock promoters are psychologists of the first water. A promoter never uses such a name as "Blatz." This is a harsh guttural Gothic name likely to jar the delicate sensibilities of victims when talking to them over the phone. If he should call you on the phone and say, "This is Blatz talking," there would be a certain sales resistance built up. And so the stock promoter deals in French and Latin names; soft smooth names that soothe the ear and thwart our suspicions. So the soft, pleasingly smooth name I noticed on the office door appealed to me, perhaps, as a possible case to look into.

Below the name was listed twelve cities in which this institution was presumed to have offices. I made a thorough search of our files and yet the company could not be found. Neither could I find branch offices of this firm in any of the cities listed. I went across the street into another office building, and I asked a friend of mine, who is an attorney, with offices on the same floor as the concern whose name had caught my eye, if I could sit there for a few minutes. He told me that I could.

There was a very interesting and unusual condition in the office opposite. Every window was closed. It was in the middle of August. The blinds were drawn from the top of the windows to the center, and from the center of the windows to the sills there were hung heavy green curtains. I asked my friend if I could come back the next

day. He said, "You are up to something. I do not know what it is, but I guess it is all right." I said, "You see those green curtains?" He said, "Yes, I do." "Well," I replied, "I believe there is something interesting behind them." I told him to let me come back for a couple of days. He consented, and so I came back the next day and the next.

On the third day, while sitting in his office and looking out of the corner of my eye, I discovered what I had anticipated. One of the chaps in that office had become warm, as individuals are apt to do in the summer time, and raised the window. The gentle breezes wafted off the Mississippi River, coming into that building parted those curtains, and in looking through those curtains I saw just exactly what I had expected.

A Glimpse of the Workmen

THERE, in a little room, not larger than 15 feet by 30 feet, there were crowded fifteen men at little desks. They were dressed in their undershirts, having over their heads what we radio fans call a head set, and before them the inevitable sucker list cards. That is a phone room, or, as the stock jobbers would say, a "boiler room."

The result of our investigation showed that those promoters came down from Chicago to unload on St. Louis and its environs a goodly portion of a worthless bond issue of a million and a half dollars issued on a defunct railroad over in Indiana.

The second phase of the subject "Gold Brick Financing" is more hopeful. To me gold brick financing, which is nothing but extracting money from the gullible investor through the employment of various "types of fraud," also contains the potentiality of offering the exact protection that will protect these selfsame victims from this highly organized system.

The Better Business Bureaus scattered throughout the country proceed on that premise. The slogan is "Get the Facts," "Before you Invest—Investigate," and "Know Your Broker or Banker." Backing up these slogans is a tremendous volume of publicity and educational matter that has as its purpose the educating of the public to a recognition of the type of fraud, or, to the realization, through innate suspicion, that the scheme presented is such as to warrant an investigation through their banker, broker or any other business institution in whom they happen to have the necessary confidence.

"Gold Brick" immediately conjures in one's mind the thought of a slick scheme—an attempt to get money by unfair means. "Gold Brick" has become generic. It envisions a

"type of fraud" rather than a particular individual or a specific company.

In so far as that type of fraud is concerned, one is protected. He does not need a Better Business Bureau to inform him of that particular fraud. He will not need the Post Office Department or the Prosecuting Attorney to prosecute the criminal after the deed is done. The name of the individual presenting the scheme is immaterial. The name of the company he presents is of no moment. It is the knowledge of the "type of fraud" that has saved one's hard-earned dollars.

The Practical Solution

I BELIEVE that the theory is sound, and that it presents the real, practical solution of diverting into the legitimate channels of trade these millions of dollars that find their way into the pockets of the unscrupulous. Money thus diverted goes into the purchase of necessary commodities, into the establishment of savings accounts, into worthwhile investments and other stable projects and commodities that build communities and assure prosperity.

To the person who has been educated to a complete knowledge of the "free lot" scheme, that scheme offers no opportunity for exploitation. When the "suit club" is fully explained to its potential victims, it offers them no terrors.

Crooks cannot sell people who ridicule them or who listen to their stories with suspicion. It is this principle that has caused American business—retail, wholesale, manufacturing and financial—to establish these Better Business Bureaus throughout the country. The legitimate merchant, manufacturer, banker and broker is removing from his own household those things that might destroy confidence in his own institution. He relinquishes some of the old customs, not always because they are fraudulent or designed to deceive the customer, but because they have a tendency to create apprehension in the mind of the consumer. He knows that where there is apprehension, doubt or suspicion—the sales resistance increases and that his business suffers.

It has been well said that "suspicion is the consumer's natural defense against exploitation." When this innate quality of suspicion, inherent in every human being, is provided with the necessary definiteness through education, when it is directed against the foes of honest financing; then the same knowledge of gold brick financing, of "types of fraud" financing, that enables the stock jobber to get his billion dollars a year from the American public, can be used to protect their victims against this annual loss.

Dominant Trends

(Continued from page 335)

times is seen in the fact that our banks are devoting a lot of time to the education of their customers in everyday banking. This movement is certain to serve a good purpose. A large majority of persons who break the rules of our banks or who experience difficulty in transacting their banking business according to the banker's demands, do so because either they do not know what their

bank requires of them, or they do not know the correct way to do the things demanded of them. Recognizing this fact, our bankers are devoting more and more of their time in imparting to their customers a better understanding of what is good banking.

Another tendency is for banks to take a deeper interest in educating their employees. The whole-hearted support which our banks are giving to the American Institute of Banking and to the Educational Foundation is a good example. At no previous time in the history of banking have bank officials

taken so deep an interest in the education of their employees as they are taking today. The signs of the times point to a period of intensive education, not only behind the bank counter but in front of it as well.

Encouraging Boys and Girls

ANOTHER tendency on the part of banks is to show a higher regard for the part the American boy and girl play in banking. The boy or girl of the future is not to be regarded as a nuisance in our bank lobbies

as is the case today in many banks. Bankers are pushing school savings as never before as a means of acquainting the American youngster not only with thrift and the value of money, but also as a means of acquainting him with our banks and with banking methods and practices. They are helping our farmer boys with their pig raising clubs and their corn growing clubs. Bankers are holding oratorical contests, essay contests and letter writing contests as means of interesting youngsters in banking. In fact, one of the signs of the times is for

banks to extend a helping hand to the American youth instead of regarding him as too inconsequential to command their attention.

Briefly summed up, the signs of the times give assurance that banking is approaching a period of great improvement. Never before have there been so many constructive banking movements under way at one time. Not only are these forces constructive but they are sound. They make for stronger banks; for more efficiently operated banks; for banks offering a wider service; for better understanding of banking behind the

counter—outside the counter; for closer alliance with the American youngster; for greater thrift through wise spending; for greater thrift through systematic saving; for greater respect for the banking profession.

If I read the signs of the times correctly, there is every reason to believe that banking in the United States is on the verge of a great advance—that in the future our banks will be greatly strengthened and their service improved, as the natural result of the many constructive movements under way.

But One Way

(Continued from page 338)

whether the sale of ranges, gas, or coke should be promoted; the railroad desires to expand its service—shall it be passenger, freight, or express?

As far as the bank is concerned, the determination of department costs is fairly simple. It is also true that the factors that enter into these costs are just as stable as in most other businesses. Having obtained the cost of maintaining a savings department, the investment return is as open as a book. The banker can reach a broader market than the farmer or the merchant. As a matter of fact the market for capital is the broadest of all markets and the adjustment of the capital supply to the capital demand is probably more nearly in equilibrium than that of any other commodity. The banker cannot complain about the elusive factors and unstable conditions of his business. Some bankers feel that cost competition is more intensive in banking than in other business lines. This conclusion is also doubtful but it must be recognized that competition is a very substantial factor, even in banking.

Banks are subject to several kinds of competition.

In the first place, there may be competition in service. It should be remembered that two businesses can maintain the same price level and still compete violently in giving away many services. This brings us close to the problem of the service charge. However, there is this distinction relative to the unusually small checking balance. When no charges are made regardless of the checking balance, the better accounts are discriminated against. It is not unlike the discrimination which takes place when cash customers in a grocery store pay the same prices as time customers. There is one more comment about the service charge, which is, that the opposition to it is not so much the desire to serve the community as the fear of diminishing the total deposits. This is an attitude that one frequently meets, namely, the desire to increase business regardless of the unit cost. Here is an instance where diminishing volume of business would be accompanied by a lower unit cost.

In the second place, banks may compete for the product which they deal in, namely, deposits. This is accomplished by an interest rate on long time accounts. Banks can enter into a bidding contest for savings the same as steamships or railroads may bid for passengers and freight. The only difference is that in one case the competition takes place by increasing the rate, and in the other by lowering it. Either business offers the

same opportunities for disregarding sound business principles and for prostituting professional standards. Competition for deposits may take the form of too many banks in a given community. A large percentage of the 3000 bank failures during the past six years resulted from the establishment of banks in places where they were not needed. Every business must have a minimum turn over before it can be successfully conducted. Needless to say, banking, when it fulfills its responsibilities, rests upon sane, conservative business policy. There is no place for eliminating competition in the banking field.

In the third place, banks may compete for loans. This can be done by variations in the loan rate or by the acceptance of undue risks. Should it once more be brought to the attention of bankers that, for the most part, they are not loaning their own capital but rather the funds of other people? However, the competition in making loans is minimized where the investment opportunity is standardized by security rates. It must always be borne in mind that the market price for what the banker has for sale, that is, credit, depends upon supply and demand. The banker has to do with the market equation, one side of which consists of the entire capital supply, and the other side being made up of the demands for these funds. He also has to reckon with the long run fact that interest tends to decline rather than to increase. This is an inverted ratio to the law of rents.

Banking Costs Have Doubled

FOR more than twenty-five years the costs of doing business have increased. Banking costs offer no exception to the rule. It is probably safe to say that in twenty-five years, banking costs have doubled, and the many items have tripled. One of the best authorities on banking costs in the United States has this to say: "Deposits are no longer the principal source of profit, or even of income to the average small bank. At least 90 per cent of the general overhead and other expenses incident to bank management is traceable to the handling of deposit accounts. The expense of operating these accounts during the past twenty-five years has more than doubled. The income, on the other hand, is the same, or less than it was twenty-five years ago."

In years past, many banks built up a strong surplus which makes it possible for them to live "on their own fat." Such banks are in a position to dictate the terms of competition. This makes it difficult for the newer institutions to compete, since the net return upon deposits is too small to build up a strong surplus and undivided profit ac-

count. This may be illustrated: Let us assume that Bank X has a surplus and profit amounting to \$3,000,000. It has deposits of \$15,000,000 and pays 4 per cent interest. The \$3,000,000 surplus and profit account was built up over a long period of years when overhead expenses were low and interest on investments relatively high. We will further assume that this bank employs twelve clerks and three active officers. The \$3,000,000, invested in first mortgages and sound bonds yielding 5 per cent interest, will yield \$150,000 a year. If each of the twelve clerks receives \$3,000 and each of the three officers received \$10,000 a year, the total expenses for salaries will be \$66,000, leaving the ample sum of \$84,000 to take care of the rest of the overhead. Probably, salaries have been figured too high, for, as a rule, they do not amount to more than 20 per cent of the gross earnings. The result is that these figures may be looked upon as conservative. Bank X is now in a position to loan the \$15,000,000 of deposits at 4 per cent, and still be able to pay 4 per cent to the depositor. In other words, the deposits do not pay their way. The bank is in excellent shape, however, due to the large surplus and profit account. Needless to say, it would be difficult for any bank that had been established during the past few years to compete with Bank X. Probably such banks may be found in large numbers throughout the entire United States. They have become intra-marginal due to surplus and profits; if a mutual savings bank, the depositors receive a high interest return, rather than a good profit; if a savings bank, in the general sense of the term, the stockholders sacrifice a return in order that the depositors may have the benefit of a high interest rate.

One of the chief problems in banking today is competition. And, we may add that oftentimes it is the unintelligent kind. Strange to say, as high-grade a man as the banker is, he does not, as a rule, analyze his costs of doing business. It is not enough simply to analyze the cost of carrying individual accounts; the entire business of the bank should be analyzed in order to determine if the depositors are paying for themselves. This is the first step in the establishment of a reasonable interest rate.

There is but one way to meet the problem of cut-throat competition and that is by co-operation. Business and the public reap no benefits from ruinous competition. It is the road that leads to oversupply, depressions, chaos, and unemployment. The problem is entirely in the hands of the business man. The solution rests in enough cooperation to avoid the evils of unreasonable elimination, but not so much as to discount administrative progress.

"THE SAFEST OF SAFETY PAPERS"

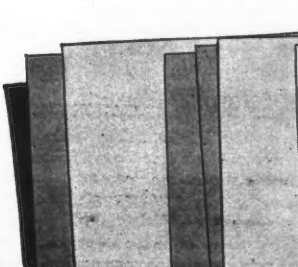
5 reasons why BANKERS prefer GILBERT SAFETY PAPER

- 1 *Readability* The even pattern of color of Gilbert Safety Paper makes it perfectly legible and reduces eye strain.
- 2 *Double Safety Feature* Gilbert Safety is made with surface color for erasure and chemical reaction to ink eradicator, producing a brown stain on application of an alkali and a blue stain upon application of acid.
- 3 *Rag Content* The rag Content in Gilbert Safety assures a tougher and at the same time more flexible check than where the paper is made entirely of wood fibre.
- 4 *Colors* Gilbert Safety is available in six attractive shades of color and white, making possible a wide range of choice in the use of color in checks.
- 5 *Flexibility in Printing* Gilbert Safety because of its patternless surface can be pantographed or can be used plain and on its plain surface all lithography comes up clearly and distinctly and produces a bright and attractive check.

MANUFACTURED BY

GILBERT PAPER COMPANY

Menasha - Wisconsin



GILBERT PAPER CO.
Menasha, Wisconsin
Please mail me a copy of your Gilbert Safety Paper
Sample Book.

Name _____

Address _____

When writing to advertisers please mention the American Bankers Association Journal

First National Bank

Cincinnati, Ohio



Investments
Trust Department
Commercial Banking



Capital and Surplus over Ten Million Dollars

Modifying Mortgage

(Continued from page 356)

proceeds passed to their earnings account. In the meanwhile the banks are deriving some income from their holdings, and often are able to dispose of farms at a profit. The Joint Stock Banks are allowed to carry acquired lands at a reappraised value, but never more than the amount of the original loan. They employ experts to manage acquired farms and on the whole have been successful in maintaining values. Both systems of banks, having no demand obligations, their chief obligations being long term bonds covering a period of years in which agriculture usually recovers from periodic depression, are in a position to handle such assets in a way possible with no other mortgage loan institutions.

In the operation of these lands banks, the chief question of interest to the public at large is the matter of security for the great bond issues in the hands of investors. There is in fact no occasion to question the soundness of any of these obligations. The worst that could reasonably be anticipated in the embarrassment of any land bank is a failure of dividends and possible impairment of capital with either of which events bond holders have little concern. The bonds of the Federal Land Banks enjoy a better market than those of the Joint Stock Land Banks probably largely because of

the unity of the system and the fact that all bonds of these banks in practical effect are supported by the united assets of all the banks. On the other hand, there is no reason to question the ultimate security of the bonds of the Joint Stock Banks, even those banks whose general condition has been brought into question.

Considering the volume of business that has been transacted, the highly critical agricultural depression through which the country has been passing, and the very problem of many commercial banks in the parts of the United States most directly affected, the mistakes made by all of these farm loan institutions have been remarkably few and of comparatively small consequence. Actual losses under the circumstances have been small and have been promptly cared for by earnings. No bank in either system so far has failed to promptly meet every obligation. Moreover, whatever mistakes may have been made in the past are gradually corrected by the amortization system and the fact that the obligations of these banks, as well as their mortgage loan assets, are spread over considerable time—thirty years or more, most of them—enables them to save themselves during depression and recoup losses in periods of prosperity.

In forming judgments as to these institutions and in all estimates of the value of their securities, it must be understood, first of all, that, while they are termed

"banks" in the laws constituting them—they borrowed the tail along with the hide from Europe—they are banks in no real sense of the term. They are prohibited by law from receiving any deposits except from member-borrowers and from the government. They have no demand or short term obligations. They perform no banking service and have no banking responsibilities. Their business consists solely of raising money by the sale of bonds and loaning such money to actual farmers on farm mortgages. They are not only mortgage loan companies, rather than banks, but they are mortgage loan companies whose business is restricted by law to agriculture.

It naturally follows that a reasonable amount of farm real estate can be found in the assets of these concerns as a matter of course. Farm land is the security contemplated by law as the basis of their business. They can ordinarily have no other security assets than farm lands or collateral taken to strengthen a farm mortgage loan. In no line of banking or money lending are all debts paid promptly and fully. When debts due the farm banks are not paid—through misfortune, incompetence, or wrongdoing, as happens with commercial banks in other lines—land must be taken.

After all, in view of the conditions through which agriculture has been passing, it is remarkable that these concerns have acquired so little real estate.

Trust Company Division

(Continued from page 340)

you and think that you are on the job and know how to draw trust agreements, because you are using their language.

"I would also suggest to you, gentlemen, that you put your own house in order. I do not know how many of you have trusted properties and made all these arrangements that you are proud of, that you are willing to show to your customer when he comes in, but it would be my suggestion that you think in those terms and be proud of the estate, because that is indirect selling."

"It so happens that I am chairman of the Committee on Education of the National Association of Life Underwriters," said Mr. MacLaughlin. "I took occasion in my report to stress the fact that education was needed in life insurance home offices to support the proposition that the functions of life underwriters and trust company officers are complementary and not competitive."

"Another thought is in a telegram from the president of our association, instructing me to say to you that we have a contribution as the National Association of Life Underwriters to the bankers in having secured a ruling from the Comptroller of the Currency, removing some inhibitions upon you bank and trust company officers in the matter of taking life insurance on your officers and employees in favor of the bank. You may now go as far in that important activity as you see fit. You have the same privileges that the ordinary industrial officials have with regard to insuring your officers and employees. That is a proposition, a ruling, that was secured by the Association of Life Underwriters for the

benefit of you bankers, giving you more freedom."

President Fox announced with regret the resignation of LeRoy A. Mershon, Deputy Manager, Trust Company Division, to take effect May 1.

Naming Depositories

JOHN C. MECHEM of Chicago discussed the growing practice in the issuance of corporate bonds of naming as the depository for interest, sinking fund and principal payments an agent other than a trust company and offered a resolution, which was adopted, placing itself on record against the practice.

President Preston, the retiring President, Mr. Traylor, and First Vice-President Hazlewood addressed the Division during its session. In the course of his remarks, Mr. Traylor said:

"All of us realize that as time goes on and the use of corporate trustees, executors and administrators becomes increasingly popular, our duties are multiplied and made infinitely more complex. The trust department is a service department. It has nothing else other than service to sell. If there is any commodity more difficult to merchandise than that of service, even a service in which we are well and familiarly versed, and the details of which we are thoroughly acquainted with, than a service that is based upon a matter in which we are not thoroughly versed, as is inevitably the case in a trust department where you are likely to be left the administration of anything from an oil well to a traveling menagerie with a circus, I don't know what it is. To train men in our trust departments for those responsible positions is the most difficult

problem we have. I can speak on that from experience, because I do not know what your experience is, but ours is that the sale of the value of service is the most difficult commodity to estimate, and the greatest difficulty we have is putting a value upon our service sufficiently large to make that department as satisfactorily remunerative as it ought to be. Certainly, if we pay the employees, pay the responsible officers the salary that their knowledge and experience of business in general would entitle them to command and which they could receive in the open markets of the world, we find it increasingly difficult to make our trust departments profitable. The difficulty we have is that annually we lose some of our best men because the training and experience they have had in business management in our trust department attracts the attention of the customer who offers them more than we can possibly pay.

"That places an additional burden upon the heads of the institutions who are responsible for maintaining trust organizations which can cope with the varied and multitudinous responsibilities which they have to assume."

"I have said too many times that I think this department of the American Bankers Association is rendering to the bankers of the country, for the very reasons I have just outlined, the most worthwhile service perhaps of any department of the Association, worthwhile because least understood. In the average bank the trust department is just one other division, and too often it is shunted off to one side as more or less the step-child of the establishment. It is, therefore, more or less with the step-child of the average institution that you, gentlemen, have to deal, because it is difficult, I am perfectly

sure it is difficult, for the managing executives of the large institutions to realize the tremendous importance of what they have heretofore regarded as but a side issue or a by-product of their business.

"I know that our own executive committee was perfectly astounded last fall, in an examination of our trust department, to find that the total assets of that department were larger than the entire assets of our institution, and yet we have twenty-five executive officers managing the rest of our bank and are trying to get four or five or six executive officers to manage and assume the responsibility for the management of the assets which are greater than the entire assets of our bank, and the assets of our trust department are not the assets of our stockholders, but they are the assets of the widows and dependents of our customers who have left to us the supervision and management of their estates. I sometimes wonder if men actually realized the exact relation between the trust department and the rest of the institution with which they have done business in their business life, if they would have the confidence they do repose in us and leave to our management in the trust department the tremendous estates which through a lifetime they build up.

"I have come to regard as my duty a more sacred relationship toward the assets of our trust department than I do toward the assets of our stockholders who have a chance at profit from their investment and whose money at risk is not that as represented by the assets of our trust department where there can be no hope from those who have left those assets with us for other than just good, plain management of the estates.

I wish I might get together the managing executives of the principal institutions of this country and try to sell to them, as I see it, a different viewpoint toward the trust departments of their institutions. We give our time to our commercial loans, to our investment departments, and to what are commonly accepted as the going principal products of the bank, forgetting, because it is not profitable as are the other departments of our banks in general, that division of our institution which is coming to be the largest with many of us, and because of its particular character, the most sacred of our responsibilities. Do anything you can to put that thought across with the heads of larger institutions, and now, as trust functions are being assumed by a multitude of inexperienced institutions, to the presidents and those in

authority, and to the directors of these institutions, that in assuming to exercise fiduciary functions they are taking upon their shoulders the most sacred responsibilities of the banking business, and that they should proceed with the greatest caution, with the greatest care and with a full realization that whether profitable or not, if they are entering that field, they must do it with the best men they can possibly obtain for the job."

Mr. John N. Stalker, vice-president, Union Trust Co., Detroit, as chairman of the nominating committee, made his report, and the following officers were elected: President, W. S. McLucas, chairman of the board of directors, Commerce Trust Company, Kansas City, Mo.; Vice-President, James H. Perkins, president, Farmers' Loan & Trust Co., New York City; members of the Executive Committee, Thomas C. Hennings, vice-president, Mercantile Trust Co., St. Louis, Mo.; W. M. Baldwin, vice-president, Union Trust Company, Cleveland, Ohio; Frank Taylor, vice-president, Illinois Merchants Trust Co., Chicago, Ill.; Henry L. Servoss, vice-president, United States Mortgage & Trust Company, New York; Leo S. Chandler, vice-president, California Bank, Los Angeles, Cal.

State Bank Division

(Continued from page 321)

ducting a vigorous nation-wide campaign as follows:

"Urging that active steps be taken to secure greater uniformity of equitable bank legislation and more uniformly efficient state bank supervision in the several states; that the important office of bank commissioner be made as free from entangling partisan politics as the judiciary itself, and divorced from all other functions of state government; that the tenure of office of bank commissioner be made more secure and lasting, with sufficient compensation and discretionary power given to attract and retain the services of men of outstanding executive ability and successful banking experience; that the bank commissioner's arm be strengthened by supplying him with an adequate examining force selected on the basis of merit from those having the requisite qualifications of honesty, ability, training and banking knowledge.

"During the past four years your committee has conducted a continuing nation-wide survey and study to determine state banking conditions in each state. In general, the state bank commissioners throughout the country heartily commended the work as being helpful and constructive. Reports of the results of state bank legislation enacted this year indicate a very definite trend along the lines advocated in our report, to wit: Increasing minimum capital requirements of banks to \$25,000; giving bank commissioners or banking boards sole power as to granting charters for new banks; creating banking boards to act in an advisory capacity with the state bank commissioner; increasing compensation of the bank commissioner and lengthening his term of office to six years, with power to appoint necessary deputies and examiners; empowering

bank commissioner to take complete charge of and to liquidate insolvent banks as distinguished from liquidation through the courts; prohibiting or limiting an officer or director of a bank from borrowing from his bank, unless his collateral is approved by a majority of the Board of Directors; legislation providing for closer supervision and regulation of building and loan associations, 'credit unions,' 'finance companies,' and private banks; broadening the field for investment of funds of savings banks and trust companies; making issuance of worthless checks a misdemeanor with specific penalties."

The committee reported its hearty approval of the movement to establish regional country clearing house systems of examination, the proposition being to district the states into groups of about seventy banks each, the definite permanent location of state and national examiners to such districts and working in cooperation with a clearing-house committee and manager. Better and safer banking is certain to result from such a plan through better supervision, closer cooperation, exchange of credit bureau information and the solution of problems of mutual interest to all banks.

The members of the State Legislative Committee are: L. A. Andrew, Chairman; W. C. Gordon, H. E. Hatch, Felix M. McWhirter, J. H. Puelicher, Will Wayman.

Federal Legislative Committee

"Our activities were confined largely to giving aid in securing the enactment of the McFadden-Pepper bill in accordance with the resolutions adopted by the American Bankers Association at the Los Angeles Convention," said the Federal Legislative Committee in its report. "At that convention there was a difference of opinion expressed by the membership of the State Bank Division regarding the branch bank

feature of the bill known as the Hull amendment, but Judge Paton, General Counsel of the Association, ruled that the mandate adopted by the general convention takes precedence over and determines the policy of all Divisions and Sections in legislative policies. Hence your committee actively cooperated with the Federal Legislative Committee of the Association and takes what we feel is justifiable pride in the fact that we played a vital part in securing the enactment of the McFadden-Pepper bill. We were convinced that the action taken by the General Convention is not only in conformity with the declared principles of the State Bank Division on branch banking, but does, in fact, curb branch banking. Moreover, the McFadden bill, without the Hull amendment, seeks primarily to equalize the charter rights and opportunities of state and national bank members of the Federal Reserve System. This is necessary to the continuance of the national banking system which, because of its compulsory membership, is the bulwark of the Federal Reserve System."

The Federal Legislative Committee consists of H. H. Saxon, Chairman; R. S. Hecht, W. A. Hunt, H. A. McCauley, E. C. McDougal, Grant McPherrin.

On the Federal Reserve System

THE Committee on the Federal Reserve System reported as follows in part:

"Doubtless the strong state bank support of the Federal Reserve System had much to do with securing the indeterminate charter of the Federal Reserve System, which happily perpetuates this, the greatest and most helpful banking facility in the world."

The Committee on Federal Reserve System consists of E. E. Crabtree, Chairman; E. G. Bennett, G. H. Gutru, F. T. Hodgdon, J. W. Spaulding, C. H. Yates.

THE SEATS OF THE MIGHTY ARE MILWAUKEE CHAIRS



Where Stately Surroundings Are a Matter of Course...

There you will invariably find Milwaukee Chairs. The charm, comfort and sturdy character of these famous chairs not only befit the most elaborate interiors, but immediately give to the room an indefinable air of dignity.

The illustration above shows the directors' room of the First National Bank of Chicago. An inspiring room, indeed, in which Milwaukee Chairs contribute no small part to the fascinating effect both in harmony and quiet elegance.

Although these chairs have every appearance

of having been specially designed for this room, they are in fact only one of many distinctive stock models. It is a sincere tribute to the superior design of Milwaukee Chairs that a stock model should have been considered worthy to grace the directors' room of one of the greatest banks in the world.

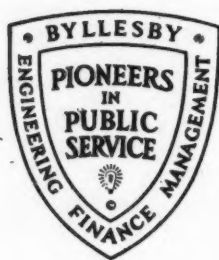
If you contemplate refurbishing or rebuilding we will be pleased to submit photographs of chairs suitable for your quarters. For further details write The Milwaukee Chair Company, 624 South Michigan Avenue, Chicago.

MILWAUKEE CHAIRS

When writing to advertisers please mention the American Bankers Association Journal

H. M. Byllesby & Co.

INCORPORATED



Underwriters, Wholesalers and Re-
tailers of Investment Securities
—Specialists in Public Utilities

CHICAGO
231 So. LaSalle Street

NEW YORK
111 Broadway

Boston
Minneapolis

Philadelphia
St. Paul

Providence
Kansas City

Detroit
Des Moines

Direct Private Wires — CHICAGO — NEW YORK — BOSTON — PHILADELPHIA

The Condition of Business

Industrial Earnings Continue to Show a Moderate Decline, Oil, Steel and Motors Being Especially Weak. Wholesale and Retail Trade Improves, However, and Business Generally Promises to Finish the Year At Good Speed. Building Work Continues Strong.

BUSINESS promises to finish this year running at good speed but somewhat unsteadily. Excellent agricultural harvests and easy money, the two favorable factors which have played such an important part by their supporting influence during recent months, remain practically unimpaired. Building construction and engineering work, by holding around the record 1926 level, have offset to considerable degree the marked decline in automobile production. Expansion of fall trade and preparation for the usual large holiday sales adds impetus to the movement of business week by week. Nevertheless, as one examines conditions down the list of individual industries, their good-bad-and-indifferent states become rather conspicuous.

Of the recent information coming from various sources on the condition of business during the latter half of the year, perhaps nothing is more significant than the earnings reports of industrial concerns which have just been published covering the September quarter. A tabulation of the first 125 reports appearing to date, taken from practically every major industry, shows a decline in earnings of 12.8 per cent as compared with the corresponding quarter last year. This is in line with expectations and follows the trend of the first and second quarterly reports.

Chief Slump in Two Lines

A DECLINE of this size makes by no means a bad showing, particularly when one considers that a large part of the decrease is accounted for by conditions in two industries—steel and oil. Of the 125 companies, fifty-four had higher earnings than last year, while seventy-one ran below. Aggregate profits of the group for the third quarter of 1927 were \$216,692,000, compared with \$248,386,000 in the same period of 1926. Following is the classification by principal lines of industry:

Industrial Corporation Earnings

Third Quarter—000's Omitted

Number	Industry	1926	1927	% Change
2	Amusement	\$1,155	\$2,164	+87.0
16	Automobile	74,179	79,664	+7.4
3	Baking	8,916	9,705	+8.8
5	Bldg. matl.	3,246	3,035	-6.5
10	Chemical	20,005	19,765	-1.2
5	Coal	2,220	1,705	-23.2
4	Electrical	20,465	22,489	+9.9
9	Foodstuff	10,652	10,550	-1.0
13	Iron & steel	50,814	31,963	-37.2
3	Leather	279	1,189	+32.6
6	Machinery	3,115	2,963	-4.9
7	Merchandising	4,864	4,909	+0.9
3	Mining	2,077	1,368	-34.1
9	Office equip.	8,665	7,542	-13.0
13	Petroleum	29,809	10,633	-64.3
2	Ry. equip.	3,524	2,436	-30.9
2	Textile	546	263	-51.9
3	Tobacco	956	1,106	+15.7
10	Miscellaneous	2,899	3,243	+11.9
125	Total	\$248,386	\$216,692	-12.8

Of the more important groups, it will be observed that automobiles, which includes parts and accessories, increased from \$74,179,000 to \$79,664,000, a gain of \$5,485,000, or 7.4 per cent. However, this includes General Motors Corporation, the gigantic organization which dominates the industry and whose earnings alone increased during the period from \$56,032,000 to \$64,508,000, a gain of \$8,476,000. Earnings of the twelve other leading motor manufacturers, whose quarterly figures are published, actually decreased from \$18,147,000 to \$15,156,000, or 16.5 per cent.

If General Motors be eliminated from the grand total for all industries, the balance for the 124 other leading companies decreased from \$192,354,000 to \$152,184,000, or 20.8 per cent!

Second largest group, iron and steel, decreased from \$50,814,000 to \$31,963,000, a loss of \$18,851,000, or 37.2 per cent. This includes United States Steel Corporation, whose net profit declined from \$31,710,000 to \$21,585,000, as well as twelve other prominent steel concerns. This causes return on capital invested in the steel industry to be subnormal.

Electrical and chemical corporations have maintained their earnings, but the oil industry suffered a severe decline, the aggregate profits of thirteen large companies declining from \$29,809,000 to \$10,633,000, a drop of \$19,176,000, or 64.3 per cent!

Nine Months' Profits Down 3.5%

THE leather industry is making a good showing, although hardly enough reports are yet available to give an accurate figure for the trade as a whole, and the same might be said of amusements, textiles and mining, although the lower metal prices prevailing

this year will doubtless result in generally poorer earnings for the latter group.

If the earnings for the first nine months be cumulated, they give a fairly accurate guide to what the full year's results will show. They furnish strong assurance that the 1927 profits of industry as a whole will not quite measure up to the record 1926 figures, yet will not fall materially below.

Combined earnings of the same 125 corporations for the nine months this year were \$675,456,000, compared with \$699,950,000, which represents a decline of \$24,494,000, or 3.5 per cent. Sixty-three companies were ahead of last year and sixty-two were behind.

If General Motors be eliminated from the nine months' grand total, the balance for the 124 other concerns declined from \$542,218,000 to \$481,698,000, a decrease of \$60,250,000, or 11.1 per cent.

Classified by industries, the nine months' analysis shows gains in eleven lines as follows: Amusements, 45.7 per cent; automobiles, 10.5; baking, 9.6; building materials, 6.9; chemicals, 10.4; electrical, 8.9; foodstuff, 4.8; merchandising, 8.9; tobacco, 26.7; miscellaneous, 9.4, and leather changed from a net deficit to net profit.

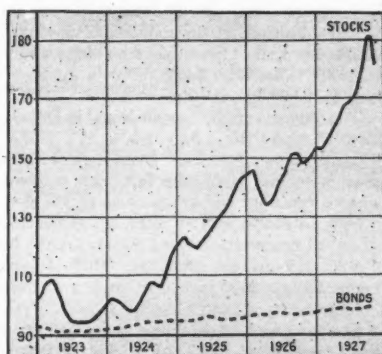
Decreases are shown in eight industries, including coal, 14.7 per cent; iron and steel, 19.4; machinery, 6.1; mining, 23.3; office equipment and household appliances, 4.3; petroleum, 50.0; railway equipment, 14.6, and textiles, 30.0.

In interpreting the above figures, allowance should be made for several factors. These companies represent the large and premier organizations in each line and would naturally be expected to fare better than the average. A decrease from the 1926 record might still mean better profits than any year prior to that time. Bankers hardly need be reminded that the favorable reports are usually issued promptly, while the unfavorable are held back. Third quarter results in general were poorer than first or second quarters, and final three months is bringing a continued decline in many lines, but is the peak season for retail movement. Such tendencies will modify the full year's results accordingly. Within each industry numerous concerns show wide variations from the average.

Production Still High

INDUSTRIAL production in the major industries shows the good-bad-and-indifferent conditions already referred to, but the sum total makes a satisfactory showing and is actually around 5 per cent better than what would be considered a normal year, while 1926 was about 10 per cent above normal.

Iron and steel production has slowed down



Stock market reacts after establishing new high (Standard Statistics Co. index)

considerably, and is now running 20 per cent below last year, while prices have showed continued weakness. The *Iron Age* composite index for finished steel products stands 2.354 cents per pound, the lowest in eleven years and comparing with an average of 2.437 cents in 1926. Of the non-ferrous metals, copper production is running along on a par with last year, zinc approximately 10 per cent lower and lead 10 per cent higher.

Soft coal mining is being speeded up with the settlement of the strike in the central fields by the unexpected surrender of the operators. Total output of coal is near 100 per cent of normal, although last fall it was nearer 125 per cent, owing to the impending strike. Anthracite mining is struggling along, and conferences of the operators are being held with a view to solving the troubles of the industry due to high costs, loss of markets, strikes, etc.

Oil Situation to Improve

OVERPRODUCTION of petroleum continues, but, judging from the opinions of oil people and bankers with whom we have talked recently in Oklahoma, Texas, California and Colorado, the situation is not getting any worse and should improve next year. Large surplus stocks will have to be carried through the winter, however, and decreased earnings, new financing and omission of dividends are quite general.

Automobile production has dropped to a low level as the manufacturers and buying public await introduction of the new Ford. September production of passenger cars and trucks in the United States declined from 350,923 vehicles to 225,013, and for the nine months from 3,475,926 to 2,851,726, a decrease of 624,200 vehicles, or 18 per cent from last year.

Lumber, cement and other building materials are having a good year and are running well above 1926, which was better than normal.

Activity of cotton and woolen mills is higher than last year, while silk mills are at least holding their own. Leather tanning is one of the brightest spots in the industrial picture, and production of shoes all year has been running ahead of 1926, averaging nearly 9 per cent.

Trade Improves Somewhat

REPORTS on wholesale and retail trade from most parts of the country reflect a broadening tendency, especially in sections of the West, where remunerative prices for leading farm products have an important bearing. In the primary textile markets for dry goods, business continues below current production.

As the cooler weather settles over a wider area more reports are received of a quickening retail demand, and the movement of goods at wholesale is distinctly better in many distributing centers than a year ago. Cotton mills report some good orders. Among lines reported as moving very freely are jewelry, radio, rayons and knitwear.

New business in iron and steel is disappointing, but many plants are fairly busy and steel requirements should show an early increase, despite the falling off in demand from the automobile, oil and gas industries. There is fair buying of railroad track sup-

plices and agricultural implement makers' requirements, but automobile steels are in very poor demand.

The Federal Reserve Board's latest index of wholesale trade, which is based on the monthly average in 1919 as 100, without seasonal adjustment, shows wholesale grocery trade increasing from 82 last year to 83 this year, meats decreased from 81 to 75, dry goods increased from 102 to 108, shoes increased from 73 to 79, and drugs increased from 115 to 126. The average of the group stands at 88, unchanged from a year ago.

Contrasting strikingly with the above is the Board's index of retail trade, prepared on the same basis. The latest corresponding figures for 1926 and 1927 are: for department store trade, 105 and 113 respectively; mail order houses, 98 and 112; chain grocery stores, 296 and 382; five-and-ten chains, 204 and 237; drug chains, 193 and 215; cigar chains, 148 and 147; shoe chains, 122 and 132, and candy chains, 194 and 208.

Even allowing for the fact that the increase in chain store sales is caused by establishing more locations as well as increasing volume per store, these figures demonstrate the continued forging ahead of the chain store system, which buy largely from the manufacturer direct, thus narrowing the field of the wholesaler and jobber.

Money Rates Easy Despite Credit Expansion

MONEY rates have shown little change during the month and are ruling well below a year ago. At the beginning of November call loans in the New York market average $3\frac{1}{2}$ per cent (although rising to 4 per cent on the last day of October), against $4\frac{1}{2}$ at this time in 1926, while time loans are 4- $4\frac{1}{4}$ against 4- $\frac{3}{4}$ last year.

Commercial paper is selling at 4 per cent for best names, four to six months, compared with $4\frac{1}{2}$ last November. Prime bankers acceptances, ninety days, are quoted $3\frac{3}{8}$ - $\frac{1}{4}$ as against 4- $3\frac{3}{8}$ last year.

This uniform ease of money is somewhat surprising if an examination be made of the expansion shown by the reports of member banks.

On the last statement available in October, showing the condition on Oct. 19, commercial loans of the reporting member banks stood at approximately \$8,830,000,000, representing an increase of \$52,000,000 from the statement of Sept. 21, 1927, and \$47,000,000 above the corresponding period a year ago.

Secured loans at \$6,226,000,000 gained \$112,000,000 during the month and \$645,000,000 in the year. Investment holdings at \$6,083,000,000 were up \$43,000,000 in the month and \$520,000,000 in the year.

The total credit expansion in twelve months, therefore, amounts to \$1,212,000,000. Coming at a time when general business is quieter than last fall, this is somewhat surprising, and an analysis of the three classes of loans and investments shows that so-called commercial loans accounted for but 4 per cent of the increase, while secured loans absorbed 53 per cent and investment holdings 43 per cent.

Strictly brokerage loans, after climbing to a new high mark of \$3,434,000,000 on Oct. 19, declined to \$3,344,000,000 on Oct. 26, but at that date were still \$742,000,000 over the year previous.

Numerous bankers and others have spoken out plainly on the dangers of such a huge volume of commercial bank credit going into the stock market and they feel that there is unmistakable evidence of over-speculation in securities.

Sentiment in the market itself is much less bullish than a few weeks ago, and October was a month of alternate violent reactions downward and upward. Considering the slightly lower trend of industrial earnings, it seems hardly reasonable that stocks are worth still higher prices in the immediate future.

This money ease is, of course, the result of the gold imports, which have added so substantially to the holdings of the Federal Reserve System. However, the tide of gold appears now to be definitely ebbing, and the recent shipments to Argentina and Canada may possibly be augmented by withdrawals by European centers, which have a much higher bank rate than ours and need more gold in connection with their programs of currency stabilization.

In the week of Oct. 26, the Reserve System lost \$19,000,000 gold, although total reserves are still \$133,000,000 above a year ago. Bills discounted were nearly \$300,000,000 less than at the same date in 1926, and the ratio increased from 73.6 to 75.3. Nevertheless, should the outward flow of gold continue to increase, there seems little doubt that money rates generally in this country would move upward again and tend to check the credit expansion.

Stabilizing the Cotton Industry

IN this review we have referred so many times during the past year or so to the application of production statistics to stabilizing industry that it may seem this point is being overemphasized. Yet new successes in this plan are being constantly seen, and we feel that it is a factor in maintaining prosperity whose importance cannot be too well understood.

An illustration of its working in the great cotton goods industry was revealed at the first annual meeting of the newly formed Cotton Textile Institute, Inc., held in October. This association now has a membership of 447 mills, which have together 21,589,000 spindles.

Walter D. Hines, president of the Institute, said in his address:

"We see shining examples of sensible and sound methods in the steel and automobile industries, where production goes up when demand goes up and goes down when demand goes down, and there does not exist any destructive instability of price to the disadvantage of customers nor to the producers and their employees. Information now available concerning supply and demand ought to enable a cotton manufacturer by close attention to appreciate when the time approaches when demand for cotton textile products will fall below the existing high level of production."

October New Financing Sets Record

AFTER the slowing down of new bond offerings during the summer, which gave the investment market an opportunity to absorb the temporary oversupply, the regular pace was resumed in September and speeded up in October to break all records.

In the tabulation at the end of this review are listed thirty-three major bond issues of \$5,000,000 and upward offered in the New (Concluded on page 406)

GUARDIAN DETROIT BANK

There Is An Advantage In Dealing With The GUARDIAN GROUP

Customers of any unit of the Guardian Group have at their disposal resources and services of a character and scope never before available under one roof within the Detroit field—in all major and minor phases of Commercial, Investment, Fiduciary and Savings banking.

We invite patronage from those to whom this combination of services appeals.

Comprising with the Guardian Trust Company and the Guardian Detroit Company the Guardian Group, which offers complete banking, fiduciary and investment service under unified ownership and operation.

DIRECTORS

HENRY E. BODMAN,
Counsel for the Guardian Group
RALPH H. BOOTH,
President Booth Publishing Company
HOWARD BONBRIGHT,
President General Securities Corporation
HOWARD E. COFFIN,
Vice-Pres. Hudson Motor Car Company
GEORGE R. COOKE,
Pres. Geo. R. Cooke Construction Company
EDEL B. FORD,
President Ford Motor Company
JOHN C. GRIER, JR.,
President Guardian Detroit Company
SHERWIN A. HILL,
Warren, Hill & Hamblen
ROSCOE B. JACKSON,
Pres. and Gen. Mgr. Hudson Motor Car Co.
ALBERT KAHN,
Architect

ERNEST KANZLER,
Executive Vice-Pres. Guardian Detroit Bank
JEROME E. J. KEANE,
Chairman of Board Keane, Higbie & Co.
ROBERT O. LORD,
President Guardian Detroit Bank
ALVAN MACAULEY,
President Packard Motor Car Company
W. LEDYARD MITCHELL,
Vice-Pres. and Gen. Mgr. Chrysler Corp.
FRED T. MURPHY,
Chairman of Board Guardian Detroit Bank
PHELPS NEWBERRY,
Vice-Pres. Guardian Trust Company
WM. ROBT. WILSON,
Pres. and Chairman Murray Corp. of America
CLARKSON C. WORMER, JR.,
President Wormer & Moore
CHARLES WRIGHT, JR.,
Beaumont, Smith & Harris

BUHL BUILDING - GRISWOLD AT CONGRESS - DETROIT

The Luthy Check Stub

Simple Convenient Labor-Saving

No. _____	Balance in Bank
Deposits {	
_____ 192 _____	

\$ _____	
No. _____	
_____ 192 _____	

\$ _____	
No. _____	
_____ 192 _____	

\$ _____	
Balance in Bank	

Reduced Size

ADAPTABLE TO ANY NUMBER OF CHECKS ON THE PAGE

The advantages of this check stub are as follows:

1. It has a space, as no other stub has, at the top of the page, immediately below the Balance in Bank, for entering deposits.
2. It automatically sets the deposits, totals and balances all in their logical positions in the same money column which no other check stub does.
3. It is adapted for the double purpose of keeping in the check book the original record of the check data and a brief, auxiliary bank account to guard against over-drafts.
4. Its arrangement is so simple, so convenient and complies so perfectly with accountancy as to be almost self-explanatory.
5. The process for keeping such bank account is so labor-saving that it does not require a single avoid-

No. 342	Balance in Bank	1,409	10
Deposits {			
Dec. 1, Cash dep.		510	15
" 1, Proceeds of Note		985	00
" 2, Collection by Bank		342	06
Dec. 1, 1925		3,246	31
First National Bank			
Quart Grocery Co. Draft			
Adse. Co.			
Journal 152 Voucher 608			
\$ 347.86			
No. 343			
Dec. 2, 1925			
Hollywood Coal Co.			
November Coal Bill			
Expense Co.			
Journal 153 Voucher 609			
\$ 92.43			
No. 344			
Dec. 2, 1925			
Central National Bank			
Note due Dec. 1			
Bills Pay \$500. Int. 750			
Journal 154 Voucher 610			
\$ 507.50		947	79
Balance in Bank		2,298	52

Reduced Size

The Stub Has No Equal

Chas. T. Luthy, Peoria, Ill.
610 W. Armstrong Ave.

Inquiries from Banks and Printers will receive prompt attention.

When writing to advertisers please mention the American Bankers Association Journal

Committees and Commissions

THE following list includes the membership in the various Committees and Commissions (excepting those of Divisions and Sections) for the ensuing year, under the new administration; the membership of the Federal and State Legislative Councils; members at large of the Executive Council, and the vice-presidents for territories and in foreign countries:

Administrative Committee

Thomas R. Preston, president, Hamilton National Bank, Chattanooga, Tenn.
 Craig B. Hazlewood, vice-president, Union Trust Co., Chicago, Ill.
 John G. Lonsdale, president, National Bank of Commerce, St. Louis, Mo.
 Melvin A. Traylor, president, First Trust & Savings Bank, Chicago, Ill.
 E. A. Onthank, president, Safety Fund National Bank, Fitchburg, Mass.
 George L. Woodward, treasurer, South Norwalk Savings Bank, South Norwalk, Conn.
 M. H. Malott, president, Citizens Bank, Abilene, Kan.
 W. S. McLucas, chairman of board, Commerce Trust Co., Kansas City, Mo.
 P. R. Williams, vice-president, Bank of Italy National Trust & Savings Association, Los Angeles, Cal.
 O. Howard Wolfe, cashier, Philadelphia-Girard National Bank, Philadelphia, Pa.
 W. A. Philpott, Jr., secretary, Texas Bankers Association, Dallas, Tex.

One-Year Term

George V. Drew, vice-president, Equitable Trust Co., New York, N. Y.
 T. O. Hammond, vice-president, Montana Trust & Savings Bank, Helena, Mont.

Two-Year Term

Julien H. Hill, president, State-Planters Bank & Trust Co., Richmond, Va.
 J. P. McKelvey, vice-president, Exchange National Bank, Pittsburgh, Pa.
 W. D. Longyear, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

Committee on Federal Legislation

V. J. Alexander, vice-president, American National Bank, Nashville, Tenn.
 S. A. Hubbard, vice-president, Central Bank & Trust Co., Asheville, N. C.

One-Year Term

Edmund S. Wolfe, president, First National Bank, Bridgeport, Conn., chairman.
 W. H. Doyle, chairman, State Bank of Platteville, Platteville, Wis.

Two-Year Term

B. G. Huntington, vice-president, Huntington National Bank, Columbus, Ohio.
 Harry V. Haynes, president, Farmers & Mechanics National Bank, Washington, D. C.

A. O. Wilson, vice-president, State National Bank, St. Louis, Mo.
 Howard Moran, vice-president, American

Security & Trust Co., Washington, D. C.
 W. A. Hunt, president, Citizens Bank & Trust Co., Henderson, N. C.

Federal Legislative Council

State Chairmen

Alabama—F. M. Moody, president, First National Bank, Tuscaloosa.
 Arizona—C. J. Walters, vice-president, Arizona Central Bank, Kingman.
 Arkansas—W. A. Hicks, vice-president, American Southern Trust Co., Little Rock.
 California—Leo S. Chandler, vice-president, California Bank, Los Angeles.
 Colorado—Clark G. Mitchell, vice-president, Denver National Bank, Denver.
 Connecticut—Edmund S. Wolfe, president, First National Bank, Bridgeport.
 Delaware—Robert P. Robinson, president, Central National Bank, Wilmington.
 District of Columbia—Harry V. Haynes, president, Farmers & Mechanics National Bank, Washington.
 Florida—Cary A. Hardee, president, First National Bank, Live Oak.
 Georgia—H. Warner Martin, vice-president, Atlanta & Lowry National Bank, Atlanta.
 Idaho—A. V. Chamberlin, vice-president, American Trust Co., Coeur d'Alene.
 Illinois—Addison Corneau, vice-president, Springfield Marine Bank, Springfield.
 Indiana—C. S. Kitterman, president, First National Bank, Cambridge City.
 Iowa—M. W. Ellis, president, Security Trust & Savings Bank, Charles City.
 Kansas—George H. Hamilton, vice-president, Fourth National Bank, Wichita.
 Kentucky—J. C. Utterback, president, City National Bank, Paducah.
 Louisiana—C. deB. Claiborne, vice-president, Whitney-Central National Bank, New Orleans.
 Maine—Charles G. Allen, president, Portland National Bank, Portland.
 Maryland—John B. Kieffer, vice-president, Hagerstown Bank, Hagerstown.
 Massachusetts—Irving W. Cook, president, First National Bank, New Bedford.
 Michigan—Paul J. Ullrich, president, Ullrich Savings Bank, Mount Clemens.
 Minnesota—J. J. Maloney, cashier, Farmers State Bank, Heron Lake.
 Mississippi—Thad B. Lampton, president, Capital National Bank, Jackson.
 Missouri—Sam E. Trimble, vice-president and cashier, Union National Bank, Springfield.
 Montana—T. O. Hammond, vice-president, Montana Trust & Savings Bank, Helena.
 Nebraska—James F. O'Donnell, cashier, Nebraska State Bank, O'Neill.
 Nevada—Charles H. Mapes, president, Washoe County Bank, Reno.
 New Hampshire—Harold A. Holbrook, cashier, First National Bank, Manchester.
 New Jersey—Spencer S. Marsh, vice-president, National Newark & Essex Banking Co., Newark.
 New Mexico—W. A. Losey, cashier, First National Bank, Hagerman.

New York—M. M. Holmes, president, Exchange National Bank, Olean.

North Carolina—S. A. Hubbard, vice-president, Central Bank & Trust Co., Asheville.

North Dakota—H. T. Graves, president, James River National Bank, Jamestown.

Ohio—B. G. Huntington, vice-president, Huntington National Bank, Columbus.

Oklahoma—H. N. Wilson, cashier, First State Bank, Bokchito.

Oregon—E. C. Sammons, vice-president, United States National Bank, Portland.

Pennsylvania—John G. Reading, president, Susquehanna Trust Co., Williamsport.

Rhode Island—J. Cunliffe Bullock, vice-president, Industrial Trust Co., Providence.

South Carolina—C. H. Yates, vice-president, Bank of Camden, Camden.

South Dakota—A. Kopperud, president, Esmond State Bank, Esmond.

Tennessee—V. J. Alexander, vice-president, American National Bank, Nashville.

Texas—J. A. Pondrom, president, City National Bank, Dallas.

Utah—L. H. Farnsworth, chairman of board, Walker Bros., Bankers, Salt Lake City.

Vermont—J. E. McCarten, president National Bank of Newport, Newport.

Virginia—Carroll Pierce, president, Citizens National Bank, Alexandria.

Washington—C. J. Lord, president, Capital National Bank, Olympia.

West Virginia—Oscar C. Wilt, cashier, Empire National Bank, Clarksburg.

Wisconsin—W. H. Doyle, cashier, State Bank of Platteville, Platteville.

Wyoming—S. Conant Parks, president, First National Bank, Lander.

In addition to the names listed above, the Federal Legislative Council, as per By-laws of the Association, is composed of the members of the Committee on Federal Legislation, Presidents and Vice-Presidents of the Divisions and Sections, and the Vice-Presidents of the Association and of the Trust Company, Savings Bank, National Bank and State Bank Divisions in each state. The By-laws provide that in each state the elective Executive Council member of the Federal Legislative Council (or if there is no such member, the State Vice-President of the Association) shall be Chairman of a sub-committee to be composed of the members of the Federal Legislative Council in that state and such other members as the State Chairman shall appoint.

Fiftieth Anniversary Committee

Lewis E. Pierson, chairman of board, American Exchange Irving Trust Co., New York, chairman.

Myron T. Herrick, United States Ambassador to France, Paris.

Charles A. Hinsch, president, Fifth Third Union Trust Co., Cincinnati, Ohio.

Thomas B. McAdams, executive manager, State-Planters Bank & Trust Co., Richmond, Va.

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis.

George M. Reynolds, chairman of board, Continental & Commercial National Bank, Chicago, Ill.

E. F. Swinney, president, First National Bank, Kansas City, Mo.

M. A. Traylor, president, First Trust & Savings Bank, Chicago.

Oscar Wells, president, First National Bank, Birmingham, Ala.

R. S. Hawes, vice-president, First National Bank, St. Louis, Mo.

Robert F. Maddox, chairman of board, Atlanta & Lowry National Bank, Atlanta, Ga.

Walter W. Head, president, Omaha National Bank, Omaha, Neb.

Secretary—W. Espey Albig, deputy manager, American Bankers Association, 110 East Forty-second Street, New York, N. Y.

Finance Committee

Craig B. Hazlewood, vice-president, Union Trust Co., Chicago, Ill.

John G. Lonsdale, president, National Bank of Commerce, St. Louis, Mo.

W. D. Longyear, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

Gus H. Mueller, vice-president, Fletcher American National Bank, Indianapolis, Ind.

Walter E. Hardt, vice-president, Franklin Fourth Street National Bank, Philadelphia, Pa.

One-Year Term

S. E. Bradt, vice-president, First National Bank, De Kalb, Ill.

H. Warner Martin, vice-president, Atlanta & Lowry National Bank, Atlanta, Ga.

Two-Year Term

S. M. McAshan, vice-president, South Texas Commercial National Bank, Houston, Tex.

John F. Wily, president, Fidelity Bank, Durham, N. C.

Committee on Membership

Clark G. Mitchell, vice-president, Denver National Bank, Denver, Colo., chairman.

J. Cunliffe Bullock, vice-president, Industrial Trust Co., Providence, R. I.

W. R. Green, vice-president, The Guardian Trust Co., Cleveland, Ohio.

One-Year Term

Frank W. Bryant, vice-president, Central National Bank, Tulsa, Okla.

J. R. Geis, president, Farmers National Bank, Salina, Kan.

Charles E. Treman, president, Ithaca Trust Co., Ithaca, N. Y.

Clyde C. Taylor, vice-president, First National Bank, Pittsburgh, Pa.

Two-Year Term

John S. Broeksmit, vice-president, Harris Trust & Savings Bank, Chicago, Ill.

C. E. McCutchen, vice-president, First National Bank, Wichita Falls, Tex.

J. J. Maloney, cashier, Farmers State Bank, Heron Lake, Minn.

E. C. Sammons, vice-president, United States National Bank, Portland, Ore.

E. A. Reddeman, vice-president, National Bank of Commerce, Milwaukee, Wis.

Thomas B. Paton, general counsel, 110 East Forty-second Street, New York, N. Y.

Committee on Non-Cash Items

J. W. Barton, vice-president, Metropolitan National Bank, Minneapolis, Minn., chairman.

C. L. Brokaw, president, Commercial National Bank, Kansas City, Kan.

Fred Brown, vice-president, First National Bank, Detroit, Mich.

E. R. Estberg, president, Waukesha National Bank, Waukesha, Wis.

Robert F. Maddox, chairman of board, Atlanta & Lowry National Bank, Atlanta, Ga.

James Ringold, president, United States National Bank, Denver, Colo.

Eugene Cazedessus, vice-president, Bank of Baton Rouge, Baton Rouge, La.

Committee on State Legislation

William S. Irish, president, First National Bank, Brooklyn, N. Y., chairman.

Charles G. Allen, president, Portland National Bank, Portland, Me.

Ben S. Paulen, president, Wilson County Bank, Fredonia, Kan.

Travis Oliver, president, Central Savings Bank & Trust Co., Monroe, La.

J. H. Therrell, president, Commercial Bank & Trust Co., Ocala, Fla.

Lane D. Webber, vice-president and trust officer, First Trust & Savings Bank, San Diego, Cal.

One-Year Term

C. H. Fox, vice-president, Chicago Trust Co., Chicago, Ill.

William Mee, president, Security National Bank, Oklahoma City, Okla.

J. J. Ponsford, president, State Bank of Watertown, Watertown, Minn.

W. H. Yeasting, president, Commercial Savings Bank & Trust Co., Toledo, Ohio.

Two-Year Term

W. G. C. Bagley, vice-president, First National Bank, Mason City, Iowa.

George W. Reily, president, Harrisburg Trust Co., Harrisburg, Pa.

R. E. Harding, vice-president, Fort Worth National Bank, Fort Worth, Tex.

Taylor R. Durham, vice-president, Chattanooga Savings Bank & Trust Co., Chattanooga, Tenn.

F. M. McWhirter, president, Peoples State Bank, Indianapolis, Ind.

Chairman, State Legislation, Trust Company Division.

State Legislative Council

Chairman to be same as Chairman of Committee on State Legislation.

State Chairmen

Alabama—F. M. Moody, president, First National Bank, Tuscaloosa.

Arizona—C. J. Walters, vice-president, Arizona Central Bank, Kingman.

Arkansas—J. M. Barker, president, Bank of Atkins, Atkins.

California—Lane D. Webber, vice-president and trust officer First Trust & Savings Bank, San Diego.

Colorado—Clark G. Mitchell, vice-president, Denver National Bank, Denver.

Connecticut—Edmund S. Wolfe, president, First National Bank, Bridgeport.

Delaware—Robert P. Robinson, president, Central National Bank, Wilmington.

District of Columbia—Harry V. Haynes, president, Farmers & Mechanics National Bank, Washington.

Florida—J. H. Therrell, president, Commercial Bank & Trust Co., Ocala.

Georgia—H. Warner Martin, vice-president, Atlanta & Lowry National Bank, Atlanta.

Idaho—A. V. Chamberlin, vice-president, American Trust Co., Coeur d'Alene.

Illinois—C. H. Fox, vice-president, Chicago Trust Co., Chicago.

Indiana—Gus H. Mueller, vice-president, Fletcher American National Bank, Indianapolis.

Iowa—W. G. C. Bagley, vice-president, First National Bank, Mason City.

Kansas—Ben S. Paulen, president, Wilson County Bank, Fredonia.

Kentucky—J. C. Utterback, president, City National Bank, Paducah.

Louisiana—Travis Oliver, president, Central Savings Bank & Trust Co., Monroe.

Maine—Charles G. Allen, president, Portland National Bank, Portland.

Maryland—John B. Kieffer, vice-president, Hagerstown Bank, Hagerstown.

Massachusetts—Carl M. Spencer, president, Home Savings Bank, Boston.

Michigan—Fred S. Case, vice-president and cashier, First National Bank, Sault Ste. Marie.

Minnesota—J. J. Ponsford, president, State Bank of Watertown, Watertown.

Mississippi—Thad B. Lampton, president, Capital National Bank, Jackson.

Missouri—M. R. Sturtevant, vice-president, Liberty Central Trust Co., St. Louis.

Montana—T. O. Hammond, vice-president, Montana Trust & Savings Bank, Helena.

Nebraska—James F. O'Donnell, cashier, Nebraska State Bank, O'Neill.

Nevada—Charles H. Mapes, president, Washoe County Bank, Reno.

New Hampshire—Harold A. Holbrook, cashier, First National Bank, Manchester.

New Jersey—Walter E. Robb, president, Burlington City Loan & Trust Co., Burlington.

New Mexico—W. A. Losey, cashier, First National Bank, Hagerman.

New York—William S. Irish, president, First National Bank, Brooklyn, chairman.

North Carolina—John F. Wily, president, Fidelity Bank, Durham.

North Dakota—H. T. Graves, president, James River National Bank, Jamestown.

Ohio—W. H. Yeasting, president, Commercial Savings Bank & Trust Co., Toledo.

Oklahoma—William Mee, president, Security National Bank, Oklahoma City.

Oregon—E. C. Sammons, vice-president, United States National Bank, Portland.

Pennsylvania—George W. Reily, president, Harrisburg Trust Co., Harrisburg.

Rhode Island—J. Cunliffe Bullock, vice-president, Industrial Trust Co., Providence.

South Carolina—C. H. Yates, vice-president, Bank of Camden, Camden.

South Dakota—A. Kopperud, president, Esmond State Bank, Esmond.

Tennessee—Joseph P. Gaut, president, Holston National Bank, Knoxville.

Texas—R. W. McAfee, vice-president, State National Bank, El Paso.

Utah—L. H. Farnsworth, chairman of board, Walker Bros. Bankers, Salt Lake City.

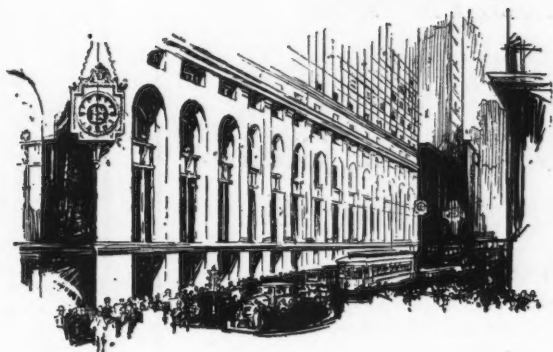
Vermont—J. E. McCarten, president, National Bank of Newport, Newport.

Virginia—Carroll Pierce, president, Citizens National Bank, Alexandria.

Washington—R. M. Hardy, president, Yakima National Bank, Yakima.

West Virginia—Oscar C. Wilt, cashier, Empire National Bank, Clarksburg.

(Continued on page 396)



READY cooperation and seasoned judgment, based upon the experience of more than sixty years, account in no small measure for the enduring relationships between this bank and its correspondents. The comprehensive service upon which these relationships are based is described briefly in a booklet, copy of which will be mailed gladly upon request.



FIRST NATIONAL BANK^{OF} CHICAGO

Affiliated

FIRST TRUST AND SAVINGS BANK

Frank O. Wetmore, Chairman
Melvin A. Traylor, President

Resources exceed
\$450,000,000.00

PARAPHRASED PROVERBS

A Collection Service Chain is No Quicker Than its Slowest Link

The elimination of avoidable delays in the handling of out-of-town collection items is a feature of our service. This is the result of—

Direct routing to place of payment.

Continuous night-and-day operation.

Liberal use of telephone and telegraph inquiries and advices.

Close official supervision.

We can save from one to three days' time in the collection of your business.

All items received at par.

THE PHILADELPHIA-GIRARD NATIONAL BANK PHILADELPHIA, PA.

Capital, Surplus and Profits . . . \$29,000,000

Committees and Commissions

(Continued from page 394)

Wisconsin—L. Albert Karel, president, State Bank of Kewaunee, Kewaunee.

Wyoming—S. Conant Parks, president, First National Bank, Lander.

In addition to the names listed above, the State Legislative Council is composed of the members of the Committee on State Legislation, Presidents and First Vice-Presidents of the Divisions and Sections, and Vice-Presidents of the Association and of the Trust Company, Savings Bank, National Bank and State Bank Divisions in each state. The By-Laws provide that in each state the elective Executive Council member of the State Legislative Council (or if there is no such member the State Vice-President of the Association) shall be Chairman of a sub-committee to be composed of the members of the State Legislative Council in that state and such other members as the State Chairman shall appoint.

Committee on State Taxation

Alabama—F. M. Moody, president, First National Bank, Tuscaloosa.

Arizona—C. J. Walters, vice-president, Arizona Central Bank, Kingman.

Arkansas—J. M. Barker, president, Bank of Atkins, Atkins.

California—Russell Lowry, vice-president, American Trust Co., San Francisco.

Colorado—Clark G. Mitchell, vice-president, Denver National Bank, Denver.

Connecticut—Edmund S. Wolfe, president, First National Bank, Bridgeport.

Delaware—Robert P. Robinson, president, Central National Bank, Wilmington.

District of Columbia—Harry V. Haynes, president, Farmers & Mechanics National Bank, Washington.

Florida—Cary A. Hardee, president, First National Bank, Live Oak.

Georgia—H. Warner Martin, vice-president, Atlanta & Lowry National Bank, Atlanta.

Idaho—A. V. Chamberlin, vice-president, American Trust Co., Coeur d'Alene.

Illinois—C. W. Boyden, vice-president, Farmers State Bank, Sheffield.

Indiana—Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend.

Iowa—A. M. Henderson, cashier, First National Bank, Story City.

Kansas—Henry S. Buzick, Jr., vice-president, Sylvan State Bank, Sylvan Grove.

Kentucky—J. C. Utterback, president, City National Bank, Paducah.

Louisiana—Travis Oliver, president, Central Savings Bank & Trust Co., Monroe.

Maine—Charles G. Allen, president, Portland National Bank, Portland.

Maryland—John B. Kieffer, vice-president, Hagerstown Bank, Hagerstown.

Massachusetts—Carl M. Spencer, president, Home Savings Bank, Boston.

Michigan—B. P. Sherwood, president, Grand Haven State Bank, Grand Haven.

Minnesota—J. H. Ingwersen, vice-president, First National Bank, Duluth.

Mississippi—Thad B. Lampton, president, Capital National Bank, Jackson.

Missouri—Thornton Cooke, president, Columbia National Bank, Kansas City, Mo., chairman.

Montana—T. O. Hammond, vice-president, Montana Trust & Savings Bank, Helena.

Nebraska—James F. O'Donnell, cashier, Nebraska State Bank, O'Neill.

Nevada—Charles H. Mapes, president, Washoe County Bank, Reno.

New Hampshire—Harold A. Holbrook, cashier, First National Bank, Manchester.

New Jersey—Wessels Van Blarcom, vice-president, Second National Bank, Paterson.

New Mexico—W. A. Losey, cashier, First National Bank, Hagerman.

New York—William K. Payne, president, Cayuga County National Bank, Auburn.

North Carolina—John F. Wily, president, Fidelity Bank, Durham.

North Dakota—H. T. Graves, president, James River National Bank, Jamestown.

Ohio—Charles W. Dupuis, president, Citizens National Bank & Trust Co., Cincinnati.

Oklahoma—William Mee, president, Security National Bank, Oklahoma City.

Oregon—E. C. Sammons, vice-president, United States National Bank, Portland.

Pennsylvania—C. P. Blinn, Jr., vice-president, Philadelphia-Girard National Bank, Philadelphia.

Rhode Island—J. Cunliffe Bullock, vice-president, Industrial Trust Co., Providence.

South Carolina—C. H. Yates, vice-president, Bank of Camden, Camden.

South Dakota—A. Kopperud, president, Esmond State Bank, Esmond.

Tennessee—Joseph P. Gaut, president, Holston National Bank, Knoxville.

Texas—P. A. Murray, cashier, Victoria Bank & Trust Co., Victoria.

Utah—L. H. Farnsworth, chairman of board, Walker Bros., Bankers, Salt Lake City.

Vermont—J. E. McCarten, president, National Bank of Newport, Newport.

Virginia—Carroll Pierce, president, Citizens National Bank, Alexandria.

Washington—R. M. Hardy, president, Yakima National Bank, Yakima.

West Virginia—Oscar C. Wilt, cashier, Empire National Bank, Clarksburg.

Wisconsin—L. Albert Karel, president, State Bank of Kewaunee, Kewaunee.

Wyoming—S. Conant Parks, president, First National Bank, Lander.

Special Committee on Federal Taxation

Charles P. Blinn, Jr., vice-president, Philadelphia-Girard National Bank, Philadelphia, chairman.

Howard Bissell, president, Peoples Bank, Buffalo, N. Y.

H. C. Carr, vice-president, Bank of Italy National Trust & Savings Association, San Francisco, Cal.

Ben Johnson, president, Commercial National Bank, Shreveport, La.

P. D. Houston, chairman of board, American National Bank, Nashville, Tenn.

Edgar L. Mattson, vice-president, Midland National Bank & Trust Co., Minneapolis, Minn.

Waldo Newcomer, chairman of board, Baltimore Trust Co., Baltimore, Md.

Ben S. Paulen, president, Wilson County Bank, Fredonia, Kan.

Vice-Presidents for Foreign Countries

Canada—Sir Joseph Flavelle, Bart, president, National Trust Co., Toronto.

China—Frank J. Raven, president, American Oriental Banking Corporation, Shanghai.

Cuba—William I. Quealy, manager, Chase National Bank of New York, Havana.

Only SAFEGUARD

REG. U. S. PAT. OFF.

gives three-fold PROTECTION

Check protection at three vital points is provided by Safeguard—automatically, unfailingly! It is literally true that “You can’t be Careless with a Safeguard!”

1. Writes EXACT Amount in WORDS.

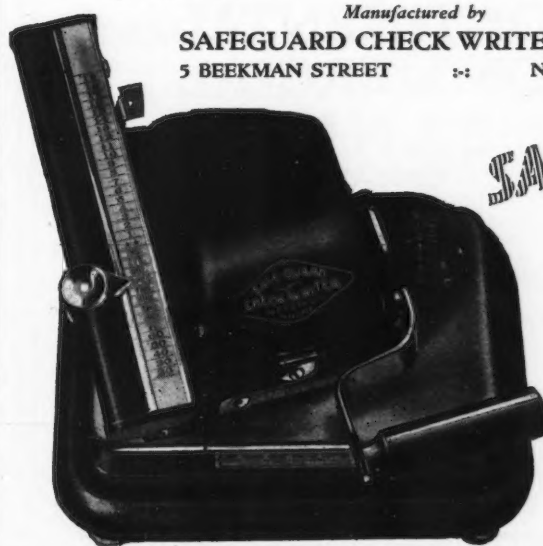


2. AUTOMATICALLY protects Payee's Name.



The same operation that writes out the amount in acid proof red ink, shreds the Payee's Name and the amount as written in figures. It's automatic—“You can’t be Careless with a Safeguard.”

3. Amount is ALWAYS written in ONE line, full width of check; eliminates danger of raising by additions.



Manufactured by
SAFEGUARD CHECK WRITER CORP.
5 BEEKMAN STREET NEW YORK

SAFEGUARD
REG. U. S. PAT. OFF.
CHECK WRITER

now presents

SPEED MODEL

the fastest check writing machine ever devised to give complete protection.

Ask for Demonstration at leading Stationers and Office Equipment Dealers.

120,000 Credit Files

The officers of this institution have at their command 120,000 up-to-date credit files, covering several times that many names in all lines of business in all sections of the country

**The CONTINENTAL and
COMMERCIAL
BANKS
CHICAGO**

RESOURCES HALF A BILLION—AND MORE

Guatemala—George B. Soto, director, Banco Colombiano, Guatemala.
Isle of Pines—John A. Miller, president, National Bank & Trust Co., Nueva Gerona.
Mexico—G. Calderon, manager, Banco de Londres y Mexico, S. A., Mexico City.
Panama—A. Delvalle, president, Banco Nacional, Panama.

Members at Large of Executive Council

Thornton Cooke, president, Columbia National Bank, Kansas City, Mo.
J. Elwood Cox, president, Commercial National Bank, High Point, N. C.
A. P. Giannini, Chairman Advisory Committee, Bank of Italy National Trust & Savings Association, San Francisco, Cal.
Harry J. Haas, vice-president, First National Bank, Philadelphia, Pa.
F. M. Law, vice-president, First National Bank, Houston, Texas.

Foundation Trustees

1 Year—Leonard P. Ayres, vice-president, Cleveland Trust Co., Cleveland, Ohio.
4 Years—Lewis E. Pierson, chairman of board, American Exchange Irving Trust Co., New York, N. Y.
2 Years—Francis H. Sisson, vice-president, Guaranty Trust Co., New York, N. Y.
5 Years—J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis.
3 Years—Evans Woollen, president, Fletcher Savings & Trust Co., Indianapolis, Ind.
6 Years—To be appointed later.
Ex-officio members are the President, First and Second Vice-presidents, the Executive Manager of the American Bankers Association, and the Educational Director of American Institute of Banking; Secretary, W. Espey Albig, Deputy Manager of American Bankers Association.

Insurance Committee

W. F. Keyser, secretary, Missouri Bankers Association, Sedalia, Mo., Chairman.
Charles H. Deppe, vice-president, Fifth Third Union Trust Co., Cincinnati, Ohio.
Charles A. Faircloth, president, National City Bank, Tampa, Fla.
W. P. Gardner, vice-president, New Jersey Title Guarantee & Trust Co., Jersey City, N. J.
N. P. Gatling, vice-president, Chatham Phenix National Bank & Trust Co., New York.
Advisory Member—Thomas B. Paton, General Counsel, 110 East 42nd Street, New York, N. Y.
Secretary—James E. Baum, Deputy Manager, American Bankers Association, 110 East 42nd Street, New York, N. Y.

Agricultural Commission

Burton M. Smith, president, Bank of North Lake, North Lake, Wis., Chairman.
C. M. Smith, president, Marble Savings Bank, Rutland, Vt.
William K. Payne, president, Cayuga County National Bank, Auburn, N. Y.
Charles H. Laird, Jr., vice-president, West Jersey Trust Co., Camden, N. J.
R. D. Sneath, president, Commercial National Bank, Tiffin, Ohio.
J. Elwood Cox, president, Commercial National Bank, High Point, N. C.

H. Lane Young, executive manager, Citizens & Southern Bank, Atlanta, Ga.

F. C. Dorsey, vice-president, Liberty Insurance Bank, Louisville, Ky.

Fred A. Irish, vice-president, First National Bank, Fargo, N. D.

Peter W. Goebel, chairman of board, Commercial National Bank, Kansas City, Kan.

P. B. Doty, president, First National Bank, Beaumont, Tex.

C. C. Colt, vice-president, First National Bank, Portland, Ore.

Advisory Council of the Agricultural Commission

W. R. Dodson, dean, College of Agriculture, Louisiana State University, Baton Rouge, La.

F. D. Farrell, president, Kansas Agricultural College, Manhattan, Kan.

Dr. H. A. Morgan, president, University of Tennessee, Knoxville, Tenn.

H. L. Russell, dean, College of Agriculture, University of Wisconsin, Madison, Wis.

Commerce and Marine Commission

Fred I. Kent, vice-president, Bankers Trust Co., New York, Chairman.

W. S. Bucklin, president, National Shawmut Bank, Boston, Mass.

Earl S. Gwin, president, Lincoln Bank & Trust Co., Louisville, Ky.

L. E. Jones, president, First National Bank, Philadelphia, Pa.

J. R. Kraus, vice-president and executive manager, The Union Trust Co., Cleveland, Ohio.

C. C. Nottingham, vice-president, First National Bank, Chattanooga, Tenn.

John McHugh, president, Chase National Bank, New York, N. Y.

Robert F. Maddox, chairman of board, Atlanta & Lowry National Bank, Atlanta, Ga.

Charles B. Mills, president, Midland National Bank, Minneapolis, Minn.

Lewis E. Pierson, chairman of board, American Exchange Irving Trust Co., New York, N. Y.

Charles H. Sabin, chairman of board, Guaranty Trust Co., New York, N. Y.

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind.

J. R. Washburn, vice-president, Continental & Commercial National Bank, Chicago, Ill.

F. O. Watts, president, First National Bank, St. Louis, Mo.

L. M. McDonald, president, Commercial National Trust & Savings Bank, Los Angeles, Cal.

Secretary—W. Espey Albig, Deputy Manager, American Bankers Association, 110 East 42nd Street, New York, N. Y.

Economic Policy Commission

Evans Woollen, president, Fletcher Savings & Trust Co., Indianapolis, Ind., chairman.

Paul M. Warburg, chairman of board, International Acceptance Bank, New York, N. Y.

Nathan Adams, president, American Exchange National Bank, Dallas, Tex.

The growing bond between Life Insurance and Trust Companies



The advertisement reproduced here is one of a series the purpose of which is to inform the public about the value of trust company service in life insurance settlements.

Appoint a reliable trust company or bank to act as trustee of your life insurance

A FEW of the mutual interests of Life Insurance and Trust Companies are as follows:

1. Both institutions serve the public
2. Both encourage people to save money
3. Both provide for the wise investment of savings
4. Both assist people to leave solvent estates
5. Both provide old age funds

Life insurance companies realize that their responsibility does not cease the moment a man's widow is paid \$5,000 or \$50,000 or whatever the amount of the insurance may be. It is of utmost

importance that this money be wisely invested. For if it is dissipated in a year or two or lost in speculative investments, the whole purpose of life insurance fails.

The Phoenix Mutual Life Insurance Company realizes this responsibility. Side by side with its own income settlement plans this company is presenting the advantages of the Life Insurance Trust to thoughtful people and impartially recommending whichever plan is best suited to their needs.



**PHOENIX MUTUAL
LIFE INSURANCE COMPANY**

HARTFORD, CONNECTICUT

Three Commissions in Eleven Years from the Same Client.

The illustration shows a unified group of buildings erected for the Exchange National Bank of Tulsa—the remarkable growth of this institution necessitating two additions to the first structure.

The three units, designed and constructed at different times, have been so skillfully coordinated that no division of the structures is visible.



Three commissions in eleven years from the same institution indicates complete satisfaction in our

Architectural
Engineering
and
Construction Management
SERVICE

WEARY AND ALFORD COMPANY

BANK AND OFFICE BUILDINGS

1923 CALUMET AVENUE
CHICAGO

Leonard P. Ayres, vice-president, Cleveland Trust Co., Cleveland, Ohio.

Edward Elliott, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

Walter W. Head, president, Omaha National Bank, Omaha, Neb.

Rudolf S. Hecht, president, Hibernia Bank & Trust Co., New Orleans, La., Vice-Chairman.

Walter Lichtenstein, executive secretary, First National Bank, Chicago, Ill.

Max B. Nahm, vice-president, Citizens National Bank, Bowling Green, Ky.

George E. Roberts, vice-president, National City Bank, New York, N. Y.

H. M. Robinson, president, Los Angeles First National Trust & Savings Bank, Los Angeles, Cal.

Charles A. Hinsch, president, Fifth Third Union Trust Co., Cincinnati, Ohio.

Public Education Commission

C. W. Allendoerfer, vice-president, First National Bank, Kansas City, Mo.

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis., Chairman.

Rudolf S. Hecht, president, Hibernia Bank & Trust Co., New Orleans, La.

Donnelly P. McDonald, People's Trust & Savings Co., Fort Wayne, Ind.

Russell G. Smith, Bank of Italy National Trust & Savings Association, San Francisco, Cal.

Frank M. Totton, Chase National Bank, New York.

C. F. Zimmermann, secretary, Pennsylvania Bankers Association, Huntingdon, Pa.

Secretary—Richard W. Hill, 110 East 42nd Street, New York.

Public Relations Commission

Charles Cason, vice-president, Chemical National Bank, New York, N. Y., Chairman.

M. E. Holderness, vice-president, First National Bank, St. Louis, Mo., Vice-Chairman.

William G. Edens, vice-president, Central Trust Co. of Illinois, Chicago, Ill.

Arthur W. Loasby, president, Equitable Trust Co., New York.

W. R. Morehouse, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

Edwin R. Rooney, vice-president, First National Bank, Boston, Mass.

Francis H. Sisson, vice-president, Guaranty Trust Co., New York.

J. Arthur House, president, Guardian Trust Co., Cleveland, Ohio.

W. W. Woodson, president, First National Bank, Waco, Tex.

Director—Gurden Edwards, 110 East 42nd Street, New York, N. Y.

Vice Presidents for Territories

Alaska—John Muller, president, First Bank of Cordova, Cordova.

Canal Zone—George S. Schaeffer, manager, Chase National Bank, Cristobal.

Hawaii—W. F. Frear, president, Bishop Trust Co., Honolulu.

Philippine Islands—C. F. Drexel, manager, Bank of the Philippine Islands, Zamboanga.

How the Southland Entertained

THE hospitality for which the Southwest is famous was lavishly demonstrated by the bankers of Houston and Texas in their entertainment of the 4000 bankers in attendance at the fifty-third annual convention of the American Bankers Association.

From the time that the delegates and their families arrived at the railroad stations, where hundreds of private automobiles were present to transport them to their hotels, to the hour of their departure, they were shown personal courtesies and entertained graciously by the bankers and citizens of Houston. The visitors were welcomed into the homes of the Houstonians and showered with that hospitality which is a traditional part of the Southwest.

A fleet of several hundred automobiles sped over the broad thoroughfares of Houston and out into its many residential parks and outlying districts on the Sunday afternoon prior to the opening of the convention, because the Houstonians wanted the visitors to see their town and its handsome homes. That evening the negro spirituals and folk songs were sung at a concert given by a mixed chorus from the Prairie View Normal School at the City Auditorium. The immense audience enthusiastically received the splendid program presented by the school and was emphatic in the praise of the school's proficiency in music.

A smart hotel, The Lamar, was the scene of a reception for the visiting ladies on Monday afternoon, and a reception was given in honor of the President of the American Bankers Association later. That evening a special performance of the Ziegfeld Follies was given in the Auditorium, where the visiting thousands were guests of the Houston banks.

A lawn party for the ladies at "Shady Side,"

the beautiful country estate of J. S. Cullinan, was one of the events of Wednesday afternoon, while the grand ball, the crowning social event of the week, was given on Wednesday night at the City Auditorium. Several hundred couples might be seen dancing on the spacious and smooth floor of the Auditorium or partaking of the refreshments that were served to the guests during the intermissions.

All of Houston is interested in and proud of its ship channel, through which the commerce of the seven seas comes up from the Gulf, fifty miles away, to the very doors of the city—by which also cotton and other products of a veritable empire are loaded directly upon ocean-going ships for all the ports of the world. The final event on the formal program of entertainment, therefore, naturally came in the nature of a trip to this engineering triumph, and an excursion down the channel on two large Shipping Board vessels.

As a part of the entertainment program, this excursion was a pleasant and an enjoyable diversion, but as a lesson in community enterprise, in what old-fashioned Northern folks are wont to call "git-up-and-git," it was an even greater success, for the visitors were immensely impressed with the results that have flowed in abundance from the construction of the ship channel. By virtue of it, Houston is a real seaport city, with a fleet of ships constantly loading and unloading at its wharves, and teeming also with all the big and small commercial and industrial adjuncts that always find their opportunity in centers of transportation.

With boundless acres of fertile soil, a sub-tropical climate, initiative, enterprise and financial daring, and a highway to all of

(Continued on page 402)



IT is the obligation of every bank to be secured against loss which may in any way imperil the funds of its depositors. Our Banker's Blanket Bond affords protection—our resources pay your loss.

May we have our agent in your city give you the facts?

Official Notice

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, OF THE AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., for October 1, 1927.

I, State of New York, county of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who, having been duly sworn according to law, deposes and says that he is the editor of the AMERICAN BANKERS ASSOCIATION JOURNAL and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

11. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd Street, New York, N. Y.; editor, James E. Clark, 110 East 42nd Street, New York, N. Y.; managing editor, none; business manager, James E. Clark, 110 East 42nd Street, New York, N. Y.

12. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given): The American Bankers Association, 110 East 42nd Street, New York, N. Y. (A voluntary, unincorporated association of banks: Melvin A. Traylor, First Trust and Savings Bank, Chicago, Ill., president, and Fred N. Shepherd, 110 East 42nd Street, New York, N. Y., executive manager.)

13. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

14. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

15. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is:— (This information is required from daily publications only.)

JAMES E. CLARK
Editor.

I Sworn to and subscribed before me this 16th day of September, 1927.

(My commission expires March 30, 1929.)

[SEAL] Lucille P. Gropp, Notary Public.

United States Fidelity
and Guaranty
Company

BALTIMORE, MARYLAND

Over 7,500 Branches and Agencies
in United States and Canada

STATEMENT OF CONDITION

At the close of business, October 10, 1927

ASSETS

Loans and Discounts	\$123,825,067.69	
U. S. Bonds and Certificates	6,372,368.88	
Other Bonds and Investments	12,377,161.03	
Banking House	1,500,000.00	
Acceptances	12,251,563.63	
Cash and due from Banks	39,407,362.92	
Other Assets	439,950.67	
		\$196,173,474.82

LIABILITIES

Capital Stock	\$ 5,000,000.00	
Surplus	17,500,000.00	
Undivided Profits	1,454,112.68	\$23,954,112.68
Reserved: Taxes, Interest, etc.		839,121.36
Circulation		349,997.50
Acceptances		15,764,299.76
Other Liabilities		40,668.66
Deposits:		
Individuals	\$112,290,080.28	
Banks	42,935,194.58	155,225,274.86
		\$196,173,474.82

**THE
CHEMICAL
NATIONAL
BANK
OF NEW YORK**

Entertainment

(Continued from page 401)

the world at its doors, Houston, and that whole section of Texas, has indeed reason to be proud. Besides the vessels of commerce there were in the channel during the visit of the bankers several naval vessels holding open house for the visitors.

The voyageurs disembarked to return by special trains to the city.

A golf tournament was conducted on Friday over the links of the Houston Country Club for those who are devotees of the Scotch national game.

Many of the delegates and other visitors to the convention had their first taste of Southland hospitality at Dallas, Tex., where arrangements had been made for several special trains to stop. The Dallas Clearing

House Association, of which R. L. Thornton is president, had a fleet of automobiles in waiting and took the visitors to the Adolphus Hotel. Later they were taken to the State Fair grounds, to spend the afternoon at a great football game, the presentation of the opera "Moritz" in the commodious and fully equipped theater on the Fair grounds, or to regale themselves with the innumerable attractions of the Fair itself. There was a reception for the ladies and a smoker for the men after the Fair, and in the evening all visitors were guests of the Dallas bankers at a banquet, which was one of the finest of all the features in connection with the convention. Dallas endeared itself to everyone who had the good fortune to be its guest for the day.

It seemed that all cities along the route leading to the convention were anxious to

entertain the transient bankers. New Orleans, St. Louis and Nashville entertained several hundred delegates on the Saturday preceding the convention.

The four special trains from Chicago stopped near Biloxi to visit the new Edgewater Gulf Hotel and to motor over the smooth shell road along the Gulf coast to Pass Christian, where all of the visitors were the guests of Rudolf Hecht at his Japanese Garden at a breakfast and tea party. Proceeding to New Orleans, the visiting bankers boarded a steamer during the afternoon and inspected the harbor and the new Industrial Ship Canal, the voyage ending at the Southern Yacht Club, where the New Orleans bankers entertained their guests at a banquet and dance. The bankers from the Southeast joined the delegation at New Orleans and enjoyed the hospitality.

Should There Be a Limit

(Continued from page 363)

furnish the best of everything usually employ their own organization for sales and distribution and cannot offer an overwriting commission to the bankers' association. When such a commission is involved there is always a troublesome question of whether this commission should accrue to the association or should be passed on to the member bank. In any event, the possibilities of commercial disputes are too numerous to recommend the department-store idea for general adoption by bankers' associations. There is one conspicuous exception to this rule and there may be other exceptions. The one conspicuous exception is the operation of an insurance agency as a part of the association work. In many states the interest of the member bank is best served by the operation of an insurance agency, and when this condition exists insurance is automatically transformed from a miscellaneous function to a primary function. Many country banks do business in a town where no regular insurance agency exists, and such banks have no source from which to obtain advice on contracts, coverage, etc., except through the bankers' association of their state. This is a complicated subject requiring the study of experts and expert advice is of primary importance in the buying of insurance by a bank.

The commercial aspects of other business transactions between the bankers' association and its members are absent in the purchase and sale of insurance because insurance rates are standardized and are on the same level whether placed through the association or through an outside agency.

Trust Company Resources

A NEW high level of resources of the trust companies of the United States amounting to \$20,480,000,000 was reported to the Trust Company Division at the Houston convention by the United States Mortgage & Trust Company, of New York. The deposits of the trust companies are in excess of \$16,800,000,000. Both totals are considerably more than double those of ten years ago.

Six states—New York, Pennsylvania, Illinois, Ohio, California and New Jersey—have resources of more than \$1,000,000,000 each.

How to Use

(Continued from page 333)

has satisfied the credit officer so far as their values are concerned, and he has satisfied himself regarding the other items on the balance sheet, including, of course, earnings and also including the current ratio of assets to liabilities, he has a very definite idea of the actual financial condition of the company.

I do not know how other bankers feel about it but personally I feel that he is just one-third through with his work as he has two other problems to solve. First, he must satisfy himself as best he can as to the future economic conditions, which are going to affect the particular transaction which he is endeavoring to finance. How are we going to gage the future? We have only one measure, naturally, and that is by study of the past. The pendulum swings both ways. But it seems to me that a careful study of the record of the particular applicant over a definite period of time, combined with a real knowledge of economic conditions generally, plus a knowledge of the conditions which are affecting this particular applicant, will do two things. It will give the banker a basis upon which to formulate a fairly sound judgment relative to future conditions affecting this transaction, and, second, it will give him a fairly clear indication of the capacity of the personnel of the credit applicant.

Acid Test of Honesty

SUPPOSING that the financial statement does show the condition of this particular applicant is sound, and assuming the credit officer has fairly satisfied himself that the personnel of the applicant has capacity, is he then in a position to render an absolutely sound judgment, so far as the extension or refusal of credit is concerned? I do not know how other bankers feel about it, but I say no. I maintain that he has still failed to investigate what to me is the most important factor of the entire credit investigation, namely, the character and integrity of the personnel of that credit applicant. The very word "credit" implies credulity, worthiness, honesty, integrity. How are we going to analyze these intangible elements and assess them at their true value? I am perfectly frank to admit that it requires almost genius of the type that can read the mind of man, but nevertheless it should be done. At this juncture, I am going to make a statement that I regret to make but I am venturing it because I believe it to be true, and I believe that the majority of you will agree with me. It is this: The majority of business men today are outwardly honest only because there has never been an occasion when their honesty has received a real acid test. The man who is fundamentally honest is the man who, when faced with business disaster, accepts his misfortune like a cross, but does not permit it to crush his fine moral fibre.

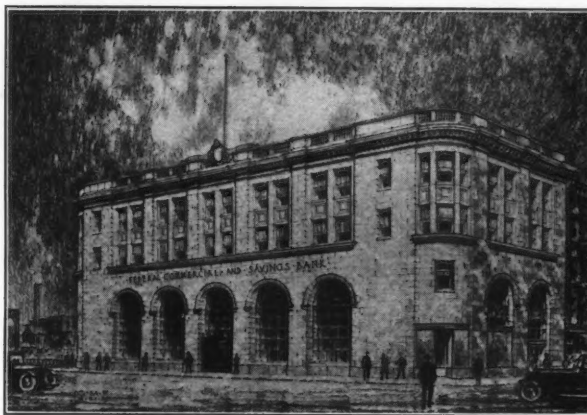
How many men there are of this particular type among the millions, bankers know. Desperation has driven many so-called honest men to dishonesty over night. Their false vanity and foolish pride when they are faced with business disaster has caused them

to lose their sense of fair play, with the ultimate result that we find them listed under the category where they should have been listed from the start, that of the dishonest debtor.

How this problem is going to be solved I am perfectly frank to admit is a question to me, because whatever conclusion we may draw from the facts available must be weak because our facts are weak. Naturally, the only means apparent upon which to base our conclusion are history and record of the conduct of the particular individual so far as his friends and business associates and the community where he resides are concerned, but it seems to me that these facts should be investigated with the utmost vigor.

The world today is heralding Socrates and Plato and Aristotle as great because of their illuminating metaphysical essays on the mind of man. I believe the greatest philosopher is yet to come, and when he does appear he will be found to be a banker who has had the ability to put in print his conceptions of the workings of the human mind as he has found them disclosed to him in his daily contact with debtors. Such a philosophy would be a revelation to the Bacons and Spinozas and even to our present-day philosophers, because it would disclose ultimate reasonings which these great men never even dreamed of.

It has been said—and I agree with the



FEDERAL COMMERCIAL AND SAVINGS BANK
PORT HURON, MICHIGAN

THE foundations and steel frame of the above building have been designed to carry additional floors of offices which will be added when required and at a minimum of expense.

Too—the attractive corner shop will yield a substantial return and provide for expansion of the banking room at a later date.

UFFINGER, FOSTER & BOOKWALTER

INCORPORATED
FORMERLY
MOWBRAY & UFFINGER

ARCHITECTS
BANK EQUIPMENT & VAULT ENGINEERS
221 WEST 57TH STREET
NEW YORK



TIME TESTED policies are a sure guide to financial success. The First National Bank in Detroit with 64 years of experience has developed alert, progressive policies which today are your assurance of a safe and satisfactory banking connection.

**FIRST NATIONAL BANK
CENTRAL SAVINGS BANK
FIRST NATIONAL COMPANY
OF DETROIT, INC.**

statement—that the greatest bankers today are the men who have had the vision and the ability and the courage to select and foster and finance honest and successful business men whose credits have been extended on the basis of character and capacity and integrity rather than upon assets.

While the financial statement furnishes a sound and scientific method for the investigation of the financial status of a credit applicant, bankers must never forget that the financial statement is not conclusive in itself, and that we must go over and beyond the statement to find evidence of that greatest keystone of all credits, character. Without character and integrity in the individual, the financial statement is of small use, regardless of the ratio of assets and liabilities.

Savings Bank Division

(Continued from page 334)

Division for the coming year. Other officers, nominated by a committee consisting of A. C. Robinson, chairman; H. H. Reinhard and Howard Moran, were elected as follows:

Vice-president, Taylor R. Durham, vice-president of the Chattanooga Savings Bank and Trust Co., Chattanooga, Tenn.; Executive Committee, to serve until 1930: Arian W. Converse, vice-president and cashier of the First Trust and Savings Bank, Chicago; Henry R. Kinsey, comptroller, Williamsburg Savings Bank, Brooklyn, and Louis Betz, treasurer of the State Savings Bank, St. Paul, Minn.

New Responsibilities

(Continued from page 328)

but I have found that some very able bankers in starting to build up an investment account have restricted themselves to bonds of approximately five year maturity for 20 per cent of what they might expect their investment account ultimately to be. The other 80 per cent is put into municipals and corporation bonds of a shorter maturity or those that have been called.

The second year about 20 per cent is put into approximately five-year maturities and 60 per cent in short term obligations, and so on into the third and fourth years.

At the end of that time they have 20 per cent of these bonds maturing each year, and have an automatic, revolving investment account.

This plan, of course, may be extended to longer maturities with the same general principle in mind.

Banks will always find a commercial market for its one, two and three year maturities because they rightly fall into the class of prime, short time paper. And with its maturities current, it should be able to cash in on short notice, if necessary, 80 per cent of its investment account, if indeed not 100 per cent.

Marketability Necessary

LIQUIDITY, of course, ties in with the matter of marketability. Even though maturity dates are well planned, something unforeseen may happen that will cause us to need funds. If we do not have commercial paper maturing at that time, we have to dispose of some of our security holdings. Sometimes we even have to dispose of them without making a profit, but the point is that when we have to sell we should be able to sell. Frequently, listed securities are the most marketable investment securities. On the larger exchanges, such as New York and Chicago, there are usually buyers for the securities offered. Listing on such exchanges is then an indication of marketability, but is not an infallible indication. Sometimes listed securities move very slowly. Sometimes trade in unlisted securities is very active. In other words, there is no ready-made formula to guide us in our testing of a security for marketability, and herein lies another of our problems in discharging our obligation to safeguard depositors.

Frankly, I have come to feel that the inclusion of some commercial paper in our secondary reserve program is ordinarily very desirable. Just how big a proportion of commercial paper I cannot say. That is a matter for individual judgment.

In the fall of 1924, when money rates were unseasonably easy, due in part to the open-market purchases of governments and bankers' acceptances by the reserve banks, many banks throughout the country found it difficult to do much more than cover expenses. They were particularly interested in yield and disinclined to give proper consideration to liquidity.

The feeling was perfectly natural, and was one that bond salesmen could have used to considerable advantage, but many of the bankers I know felt that it would be un-

wise, even under such conditions, to give over the standard of liquidity.

New Challenge to be Met

AND so, under changed conditions of commercial banking that have been due in part to the Federal Reserve System, that have been due in part to the tremendous inflow of gold from abroad, that have been due to the building up of enormous corporate surpluses, that have been due to a hundred and one other causes—many of us who were jogging along comfortably, making short time commercial loans, find that we have new problems thrown at us for the employment of our funds, whether we will or no.

The old obligation continues; that is, to safeguard depositors. But under changed conditions we have become security buyers. We are investing part of our bank funds in securities as a secondary reserve. We are asked to buy securities for customers and give them investment counsel. And whether we like it or not, in the discharge of these obligations we must know about securities.

In the investment of our banking funds, we must consider marketability, liquidating maturity dates, as well as price and yield. It is not enough to know what security markets are doing generally; we must know the facts as to each security that we consider. And frankly, gentlemen, there is no ready-made rule that we can follow. We must have connections such that we can get at the facts behind securities, and we must learn how to exercise that same quality of credit judgment that we have long been accustomed to exercise in the case of commercial loans.

Admittedly, the job of forecasting what is going to happen five or ten years from now is more hazardous than is the task of forecasting what is likely to happen within a period of thirty to ninety days, just as it is more difficult to forecast the weather for 1929 than it is to say what the weather will be tomorrow. However, the very difficulty of this task of exercising credit judgment with respect to long time investments is merely a challenge to our sources of information and to our intelligence.

Restoring Banking

(Continued from page 348)

United States. One of the important reasons for this uniformity is that it will obtain for clearing house practice recognition as law merchant by the courts.

It will not be found possible to secure 100 per cent membership from all the banks in a given district. Banks which will not cooperate may at the beginning be omitted until public opinion compels them to yield. Banks which cannot keep reasonable and safe standards should not be admitted because of the assurance which the association extends on behalf of its membership to the public. County and city credit bureaus as now constituted are invaluable. They are, however, but the doorstep to the clearing house and should be incorporated within it as soon as possible.

It would appear objectionable to legally incorporate such clearing houses or in any

way deprive them of their voluntary character. What we need today is a spirit of whole-hearted and eager acquiescence. State and national supervision and its compulsions has been carried to the extreme limit of value.

All Will Share in Benefits

WHAT we need now is a comparative examination in which the conditions and details of all the banks within a given territory shall be assembled, digested, and made the basis of acceptable standards, recognized practices, and indicated correctives. The best of each will then be made available for all. The strength and support of all will be made available to each one so long as it remains deserving through good discipline, good practices, and recognized ethics.

Then antagonists will be eliminated, friendly intervention provided, the great god fear thrown down from his pedestal, the public confidence earned and deserved, the communities' credit and financial power truly mobilized, bank guarantee and other legislative nostrums relegated to the museum.

Then the foundation will be laid for a new era in which banking shall come to recognition as a learned and ethical profession. It will make its mistakes, but will know how skillfully to correct them. It will have its times of stress, but will be fortified against them, and with diversification and diffusion of risk, the possession of common counsel and recognized aims of skilled service, adequately compensated, we shall again come to be proud of our day's work, and the depleted prestige of banking will be restored.



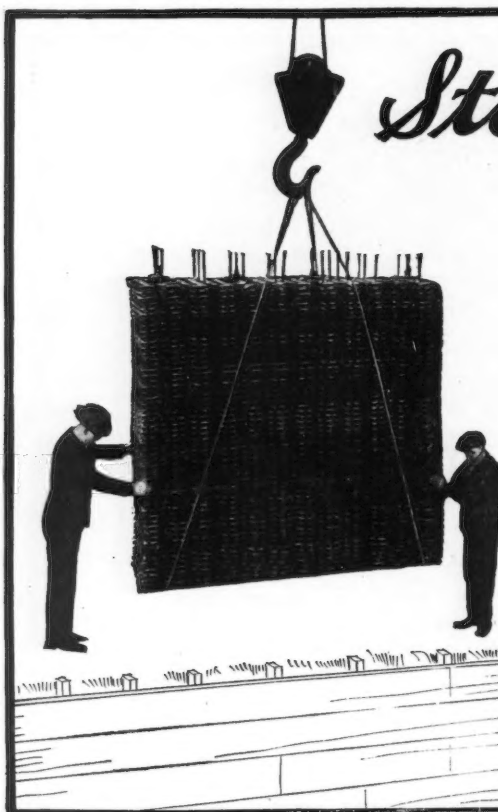
Personal Service

OUR wide facilities, not only here, but in more than 100 foreign countries, make this an ideal connection for you—one characterized by the personal note which is never lacking at this friendly big bank.

The Foreman National Bank The Foreman Trust and Savings Bank

La Salle and Washington Streets, Chicago

RESOURCES EXCEED 100 MILLION DOLLARS



Steelcrete Vaults

Put this Defiant Mat of Steel Into your Vault

THERE is no compromise with security in the vault protected with this defiant entanglement of Steelcrete Armor Mat. It is embedded in roof, floor and four walls. Steelcrete provides the only complete 3-Point Protection:—(1) cutting flame, (2) drill, (3) explosives.

Before you plan your new banking house, or before you remodel, ask your architect to tell you about the extra protection, the security for your institution, provided by Steelcrete, the world's most modern vault.

Send for list of notable Steelcrete installations—then "investigate before you invest."

The Consolidated Expanded Metal Companies

Steelcrete Building, Wheeling, W. Va.

Branches: Atlanta, Cleveland, Pittsburgh, New York, Boston, Philadelphia, Chicago, Buffalo

Condition of Business

(Continued from page 390)

York market last month, whose aggregate face value is \$646,873,000. The smaller issues of under \$5,000,000, whose complete tabulation will not be completed until some time later, would augment the total by at

least \$100,000,000. This is exclusive of stock issues.

Since we have been publishing this monthly tabulation, from June, 1926, this volume of major issues sets a new record, the previous high mark being \$558,205,000 in January, 1927. That month's number, however, was thirty-five.

Although bond prices have held steady in

the face of this host of large issues and are still around the best level of recent years, there is no denying the fact that symptoms of the old congestion are returning, and that some slowing down in the pace will be necessary. The quarterly disbursements of dividends and interest naturally supply October with more funds than the average month, and prevailing low rates have made it attractive for corporations to float long-term obligations even though the proceeds are not needed immediately. Numerous issues are for refunding purposes to replace higher coupon bonds called for redemption.

Two more oil issues are included, \$30,000,000 for the Shell Pipe Line Corporation and \$12,000,000 for Continental Oil Company.

Other large issues of interest are the \$47,000,000 Republic of Poland stabilization loan, \$50,000,000 Central Bank for Agriculture, Germany, and \$41,500,000 Government of Brazil. Also the \$66,000,000 New York Power and Light Corporation, representing a consolidation of several public utilities.

Start With This Issue

For banks that have not yet availed themselves of the privilege of group subscriptions to the JOURNAL for the benefit of their officers and employees, it is suggested that November is a good issue with which to begin. On account of the annual convention of the American Bankers Association, this issue covers an unusually wide range of banking subjects. Subscriptions sent in during the present month should be marked, "Begin with the November issue."

Major Financing in October

Issue	Amount	Rate	Due	Price	Yield
N. Y. Power & Light Corp. 1st.....	\$66,000,000	4½	1967	96	4.72
Central Bank for Agriculture, Germany, sec.....	50,000,000	6	1960	95½	6.32
Republic of Poland stabilization ext. s. f.....	47,000,000	7	1947	92	7.86
Government of Brazil, ext. s. f.....	41,500,000	6½	1957	92½	7.10
Edison Electric Illuminating Co. notes.....	40,000,000	4½	1928-30	99¾-100	4½-½
Shawinigan Water & Power Co. 1st & col. tr. A.....	35,000,000	4½	1967	95½	4.75
Philadelphia Electric Co. 1st & ref.....	35,000,000	4½	1967	98½	4.58
State of Prussia, Germany, ext. s. f.....	30,000,000	6	1952	96½	6.28
Shell Pipe Line Corp. s. f. deb.....	30,000,000	5	1952	98	5.12
Federal Land Bank.....	29,000,000	4	1957	100	4.00
Province of Ontario, Canada, ref.....	24,000,000	4½	1928-57	100¾	4.25-50
Canada Cement Co., Ltd. 1st s. f. A.....	20,000,000	5½	1947	99	5.58
Hearst Publications, Inc., 1st & col. tr.....	20,000,000	6½	1928-47	100-1.20	5-6.25
Commerz-und-Privat-Bank, Germany, notes.....	20,000,000	5½	1937	94½	6.25
Great Northern Railway Co. gen. mtg. E.....	20,000,000	4½	1977	99	4.55
Georgia Power Co. 1st & ref.....	18,000,000	5	1967	98	5.12
West Texas Utilities Co. 1st A.....	12,500,000	5	1957	97½	5.15
Continental Oil Co. deb.....	12,000,000	5½	1937	99	5.37
Duquesne Light Co. 1st.....	10,000,000	4½	1967	99	4.55
Central Bank of German State & Prov. Banks, Inc. sec. s. f. B.....	10,000,000	6	1951	95	6.40
Amer. Natural Gas Corp. s. f. deb.....	10,000,000	6½	1942	99½	6.55
Morris & Essex RR. Co. 1st & ref.....	9,871,000	3½	2000	85	4.15
Paramount Theatres, Allied Owners Corp. 1st s. f.....	9,500,000	6	1945	99	6.10
So. California Gas Co. 1st & ref.....	8,646,000	5	1957	99	5.09
City of Los Angeles electric & water works.....	6,856,000	4½	1928-67	...	3.75-4.12
State of Illinois highway.....	6,000,000	4	1945-56	...	3.87
Edgewater Beach Apartments, Chicago, 1st.....	6,000,000	6	1931-43	100	6.00
American Cyanamid Co. s. f. deb.....	5,000,000	5	1942	94	5.60
Agricultural Mortgage Bank, Colombia, s. f.....	5,000,000	6	1947	92	6.75
State of Hamburg, Germany, treas. note part. cifs.....	5,000,000	5	1928	...	5.37
Investment Co. of America deb. A.....	5,000,000	5	1947	97	5.25
Bankitaly Mtge. Co. 1st coll.....	5,000,000	5½	1947	100	5.50
Province of Newfoundland, Canada.....	5,000,000	5	1952	100½	4.98

General Sessions

(Continued from page 299)

occupy the positions of First and Second Vice-Presidents.

"Mighty changes have occurred in this country since this Association was born more than 52 years ago. At that time the resources of all the banks of this country were less than one-twentieth of what they are today. At that time we had a banking system far from satisfactory. We now have what is considered the greatest banking system ever devised by any people.

The Changes Wrought

“AT that time we were virtually on a paper basis, now we possess one-half the gold of all the world. At that time we owed Europe, now Europe owes us. It is comforting to know that in all these changes the work of the American Bankers Association has not been alone for its membership, but in a larger and better way it has benefited the nation as a whole. Through all those years this organization has stood for the finer and better things in our business and social life.

"New problems, new fields of labor appear everywhere, and the opportunities for service were never greater than they are today. If we keep our heads level and our judgment sound, the things that this organization has done up until now, great as they may seem to us, will be small compared to what our successors will be doing 50 years hence."

Other Officers Installed

"AS a fellow townsman of your First Vice-President," Mr. Traylor said in installing Mr. Hazlewood, "I would be acting contrary to the dictates of my conscience if I did not say that in honoring Craig B. Hazlewood I feel that I honored distinctly the city of my adoption, and I think I can tell you, without the danger of having to retract later on, that you have honored yourselves."

"It has been a great privilege to me to be an officer of your Association during the past year," Mr. Hazlewood said, in response. "Any official contact with this organization will convince one of the great scope and magnitude of its operations, principally in the three great fields of bank management, financial legislation and economic relations. In those fields I am convinced there are even greater possibilities for study and action."

"It will be a great privilege during the coming year to be associated as an aide to this able, clear-thinking man from Tennessee you elected President. I know his administration will be an outstanding one, marked by sane judgment, fairness and conscientiousness to the best interest of the banking business of America."

"The real job in this Association is the second vice-presidency," Mr. Traylor remarked, before introducing Mr. Lonsdale. "My experience in that job leads me to believe that your Second Vice-President will have more fun during the coming year than he has had in any one year of his busy, active and happy existence, because, unlike the First Vice-President, who has only one man to disagree with and abuse, he has two, therefore double the opportunity to see that



FREE To Bank Executives

A beautiful sample
Autopoint Pencil
See coupon
below

Win Friends—

Get New Business with this New Advertising Medium

FRIENDLY contacts aid you in getting new business. Constant reminder of your bank and service results in gainful business.

That's where Autopoint, the Bakelite Pencil, fits in. Hundreds of progressive banks consider it an indispensable part of their business building plan.

Autopoints, with your name imperishably stamped on their barrels, keep your message constantly before those you wish to reach.

These ads never die

Transitory advertising dies quickly, circulars and form letters find the bottom of wastebaskets. Souvenirs are soon discarded. But Auto-point remains in prospects' pockets, on customers' desks . . . a perpetual advertisement that soon pays out in added profits, yet keeps on working for you.

Autopoint is efficient, and thousands of leading businesses have found it cuts out waste, is a powerful auxiliary to other forms of advertising.

Read the exclusive features of this famous pencil. Let us send you one to use yourself. Your delight with it will give you some idea of how your prospects will receive it.

Send the coupon now for complete information, for list of users, prices, and a beautiful sample for yourself. There's no obligation. Send coupon today.

The Over-size Model

Autopoint

"The Better Pencil"

3 Big Features

- (1) Cannot "jam"—protected by patent. But one simple moving part. Nothing to go wrong. No repairs.
- (2) Bakelite barrel, beautiful onyx-like, light-weight material.
- (3) Perfect balance—not "topheavy."

For Bank Executives Only
AUTOPOINT COMPANY
 4619 Ravenswood Ave., Chicago, Ill.

Without obligation, please send sample Auto-point, booklet, sales-building proposition, prices, etc.

Name

Bank

Title

Address

J. A. B. A. 11-27

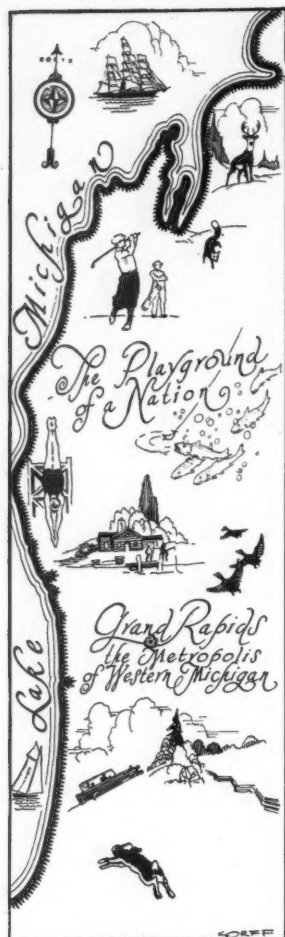
these two distinguished superior officers in rank stick on the job while he writes the programs and policies for them to carry out."

Mr. Lonsdale's Acceptance

“ALLOW me to express to you,” said Mr. Lonsdale, “my thanks for the honor you have bestowed upon me and the gratitude I feel to you for selecting me to fill the position I recognize is a sacred trust, an opportunity to serve you, the organization and mankind in a larger, fuller way, and I shall endeavor to fill it to your satisfaction with the very best in me. This I owe you as well as myself.

"Let us guard against what might be called

selfish ambition. We ask ourselves, then, what is selfish ambition? 'Tis a glorious cheat; it lifts the humble window of the gifted boy and steals in. It lays upon his brain a fire that cannot be quenched; it puts into his heart a desire that can never be quenched; it puts into his heart a desire that can never be satisfied. And what is his reward? The bright, laughing boy that we used to know and look upon becomes a cold, cynical old man. His relatives and loved ones are either neglected or forgotten. The head which should adorn the laurels he has won becomes gray. The ear which should receive the praises becomes deaf and no longer hears the merry laugh of children and the song of the birds. His eye becomes



The Old National Company provides a discriminating, ever-growing clientele with securities and investment counsel.

Quietly Dynamic

Not recreation alone does Western Michigan provide for the nation. This significant section leads America in the production of fine furniture, furnaces, refrigerators, good printing, gypsum products, store equipment.

Industrial and agricultural diversification, plus an enlightened labor policy, keeps this region unusually immune from ordinary economic disturbances.

Seventy-four years of helpful banking service have built for the Old National a fund of good will which makes it a key bank in its territory.

THE OLD NATIONAL BANK GRAND RAPIDS

“A BANK for EVERYBODY”

dimmed so he no longer sees the beauty of nature. He gains all else but love and recognition, when love and recognition is all he needs, and ere he obtains that elusive reward, close behind comes death, and he is sent tottering to the grave.

“So, after all, it is that love, that recognition that comes with a consciousness of service, remembering that no man having put his hand to the plow and looking back is fit for the Kingdom of God.”

A Happy Event

THE last event of the Houston convention was a happy one—the presentation of a handsome silver service to the retiring President and his wife.

Oscar Wells, president of the First Na-

tional Bank of Birmingham and a former President of the Association, made the presentation:

“There is a story of two Southern darkies who were passing a graveyard, peering through the fence in an effort to read the epitaphs upon the tombstones,” he said, after a few introductory words. “One could not read, and the other was laboriously spelling out the language he found thereon. The other said, ‘What do it say, big boy?’

“The answer was, ‘He says he is not dead, but sleeping.’

“The reply was, ‘That white man ain’t fooling anybody but hisself.’

“That is in sharp contrast to the attitude of the most recent Past President of your Association, who at the outset of this convention referred to the status of former

Presidents as being in a state of ‘engulfing obscurity.’

“Even though with each recruit the process of relegation advances toward a greater condition of official oblivion, we welcome him into the ranks of that unorganized but none the less existing body of which there are seventeen living members, and we extend our good offices to him that he may discharge the duties of membership therein to uphold the dignity of that organization.

“There is a practice in this Association to give to its retiring President a token, and I now, on behalf of the Association, present to Mr. Traylor the silver service on my right. It is a poor expression of our esteem for him or of our appreciation of the service which he has rendered this Association, a service which has been given in a remarkable fashion, but we trust that it may be symbolic in the future, perhaps not to the things as they are, but that they may remind him of the things as they were.

“Speaking as one Texan to another—dare I say as one rolling stone Texan to another?—I shall undertake to pledge the members of this Association to follow the admonition contained in the closing words of his (Mr. Traylor’s) memorable address, that if we are permitted to grow rich, we shall undertake not to forget to be righteous, that if we are afforded leisure we shall not pursue it with an unbridled liberty, that if we do become powerful we shall undertake to keep our pride within bounds, that we shall endeavor to grow in the atmosphere of national mindedness, and that however much we may be compelled to face the facts, we shall hold on to our faith.”

Mr. Traylor’s Reply

“OF course, this is not really a surprise. I started after this three years ago,” Mr. Traylor remarked, as the convention laughed at his good-humored acknowledgment to Mr. Wells. “I didn’t tell you why, and for that reason you helped me to this end.

“I am not unmindful of where I am going now, and I deliberately told you in my opening sentence, and not without pride, that I shall pass along with my predecessors to that obscurity in Association affairs which probably engulfs one who has had the honors of this position. His duty, like that of the obedient child, is to be seen scarcely, if ever, and heard not at all. I think I said to you at Chicago, when you made me Second Vice-President, that if I might come to the end of my term and be able to look back on my official conduct and wish that no act of mine might be undone—which I believe to be the highest ambition to which human nature can aspire—I would be happy.

“I want to leave that with you now, because I am too close to the present to say more. I hope that when I have finished my affiliation with this Association and have concluded my part in life’s program, I can then feel that I have not done as an official of this Association anything that I then will wish I had not done.

“With that, I accept on behalf of Mrs. Traylor, this beautiful gift, which will always be to us a refreshing of the memory of a most delightful experience and a constant reminder of an obligation of love and affection under which we feel ourselves indebted to you today.”

The Relation

(Continued from page 327)

debtedness has also been reduced since the war. Aside from every other consideration, the entire burden of the war should not be thrown upon the present generation. Obviously it is not immediately necessary, and manifestly it is not just to do so. Suitable provision has been made for the retiring of our bonded indebtedness. The law is being complied with. Debts due us by the allies, with one or two exceptions, have been funded. The surplus should be used in part at least as the basis of a new revenue act.

For Tax Cut

THE new revenue act should be simplified so that its provisions may be readily understood by the average taxpayer. The intent of the Congress should be clearly expressed in order that rules and regulations may be avoided.

The tax rate on net profits of corporations should be reduced to 10 per cent. The specific credit deductible should be allowed all corporations having a net taxable income. Accumulation of a capital reserve is necessary in order to secure the expansion of business and the development of our natural resources. The corporation is, of course, indispensable in our modern life. The competition from abroad may be expected to grow stronger and stronger. A reduction in this tax will assist American business to maintain American standards of life, to pay American wages, and to meet the increasing competition beyond our borders.

The new act should give proper relief to taxpayers whose incomes range from \$10,000 to \$70,000. An equitable reduction and adjustment of surtax rates especially in these brackets should be made.

Wartime excise taxes should be wiped out. If the Congress is to continue the 80 per cent provision, Federal Estate Taxes should be repealed outright. The 80 per cent provision is obviously a coercive force aimed at the states. It has no place in a revenue act, and, indeed, it has no justification under the Constitution. Lovers of constitutional government do not seek to destroy it by indirection.

Democracy offers large opportunity for self-imposed obligations. Unfair practices, agreements in restraint of trade, ruthless destruction of honest competition tend always to incite retaliatory measures, and invite hampering restrictions. The friends of good government among American business men will wisely avoid practices offensive to public opinion. The man who rightly wishes his business to remain free from the tyranny of undue political regulation and desires his government to attend strictly to the affairs of state may well consider the obligations placed upon business by our free institutions.

When, in the interest of the common welfare, it becomes necessary to regulate and to control business, the measure of regulation should be reduced to the minimum. Laws should be so simple and direct as to foreclose departmental rules and regulations, to the end that the citizen may live and his business may thrive under a government of laws and not of men.



His Directors Co-operate

The president of a Middle Western bank found himself with a board of directors including several leading citizens who were unfamiliar with banking problems and therefore unable to give him the assistance which may be expected from seasoned bank directors.

Out of an experience of 58 years as counsellor in such situations, we were able to suggest to this banker the development of certain reports and other material, which have given his new directors a welcome insight into the problems of the bank and have won for him their intelligent co-operation.

We invite you also to utilize the broad experience and helpful counsel which our correspondents uniformly enjoy.

FREDERICK H. RAWSON
Chairman of the Board



HARRY A. WHEELER
President

CRAIG B. HAZLEWOOD
Vice-President

UNION TRUST COMPANY CHICAGO

Early Banking and Big Business

(Continued from page 319)

at Florence which resulted in an agreement of Sept. 6, 1347, whereby the Bardi paid about 30 per cent on their obligations and the Peruzzi about 20 per cent.

Thus we have seen how four great Italian banking houses were ruined by their dealings with the kings of England—the Riccardi of Lucca under Edward I, the Frescobaldi of Florence under Edward II and the Bardi and Peruzzi under Edward III. Figures are available only for the failure of the Bardi and Peruzzi, showing that they advanced to the three Edwards during the years from 1290 to 1345 no less than £433,000. But one must multiply these figures by five in order to appreciate the actual nature of the collapse. Even these imperfect data suffice to indicate what must

have been the large contributions of the Italian bankers to English economic and political life.

The effect of Edward III's repudiation of his Italian debts and the subsequent panic in Europe may be compared with the crash of the Barings in 1892 and our panic of 1893.

The panic in Florence extended far beyond Tuscany. For the ruined firms had branches almost everywhere. The Peruzzi alone—and they were not so large a house as the Bardi—had sixteen exchanges: London, Bruges, Paris, Avignon, Majorca, Pisa, Genoa, Venice, Cagliari, Naples, Palermo, Clarentza in the Morea, Rhodes, Cyprus, Ceuta and Tunis. We have the record of two English students studying at the Uni-

Banks Endorse Credit Insurance

Representative banks in all parts of the country are recommending this great protective service for safeguarding their customers against bad debt losses.

A Leading Boston Bank writes: "Credit Insurance not only places merchants in a more favorable position with reference to credit granting by their banks, but also gives evidence of a policy of conservatism in providing against failures at all times."

A Leading Bank of San Francisco writes: "A borrowing account carrying with it a measure of Credit Insurance on its receivables is a far better credit risk in every way than without."

A Prominent St. Louis Bank writes: "Inasmuch as the annual turnover of a merchant is several times the value of his stock on hand at any given time, it is of vital importance that his credit accounts be insured against unusual loss through bad debts."

A National Bank of New York writes: "We have incorporated in our financial statement blanks the question: 'Do you carry Credit Insurance?'"

Interesting literature, and any specific information about American Credit Insurance which may be desired, will be furnished gladly to any Banker upon request.

**The AMERICAN
CREDIT-INDEMNITY CO.**
OF NEW YORK J. F. M^c FADDEN, PRESIDENT

Offices in All Leading Cities

New York, St. Louis, Chicago, Cleveland, Boston,
San Francisco, Philadelphia, Baltimore,
Detroit, Atlanta, Milwaukee, Etc.
In Canada—Toronto, Montreal, etc.

K 136

versity of Bologna who got their remittances from home through the Bardi.

Medici the Only Survivor

ONLY one important banking firm in Florence survived this famous "Black Friday." This was the Medici. As the transactions of the Bardi and Peruzzi grew in magnitude, partly in order to help them swing the ventures, partly perhaps in order to assure themselves against too great liability, the two major firms had drawn many other banking houses of Florence into their English deals, nearly all of which were involved in the final collapse except the Medici, who at that time were not prominent enough to be considered. The obscurity of

the Medici saved them and upon the ruins of the other Florentine banking firms they rose to riches and to fame. Although the Medici became the princely dynasty of Renaissance Florence, gave two popes to the Holy See and two queens to France, their memory is today preserved principally in the three gold balls of the pawnbroker, for six gold balls were the banking and later the heraldic device of the Medici house.

Florence never developed a state bank, though her state debt was funded as early as 1345 and her bonds were current negotiable paper. Florentine laws were strict and the courts were vigilant in maintaining the integrity of commercial relations. Breach of contracts, fictitious sales, short weights and measures, price cutting, misrep-

resentation of quality of goods, like using shoddy in cloth of first rate quality, were heavily penalized. In consequence of these strict regulations Florentine commercial honor was the highest in Europe in the fourteenth and fifteenth centuries. The bill of exchange was widely used and stabilized by the government.

State banking as distinguished from private banking was peculiarly a Venetian contribution to fiscal history. Government, not private initiative, was the rule in Venice. The earliest incident in Venetian financial history which illustrates this statement occurred after the First Crusade when the Venetian fleet under command of the doge Domenico Michael was besieging Tyre. The siege was a long and obdurate one; the summer passed and winter was approaching; the doge's supply of money was nearly exhausted and the sailors and marines were on the verge of mutiny. In this crisis, with that masterful spirit which so characterized him, Domenico Michael stamped the seal of Venice upon bits of leather and pledged his word that the Senate would redeem every one of these leathern rags—which it did. So far as I know, this is the earliest instance of fiat money in history. The marvel is that the device was not seized upon by Italian princes everywhere to recoup their finances.

Thirty years later (1157), in time of financial stress, Venice raised money by a forced loan and established a bank to handle the certificates, which were guaranteed by the state and circulated as bonds. The original subscribers to the loan were the first stockholders of the bank, the first state bank in history. But Venice's commercial enterprise was so active, her wealth so great that many private banking houses arose, like the Soranzo, Priuli, Pisani, Lipomani, Sanudo and Tiepolo families. The bank of St. George in Genoa, a partly private and partly state institution, was not established until 1407.

Germany Enters the Field

FROM Italy capitalistic enterprise passed to Germany, where in the fifteenth century the Fuggers, the Welsers, the Hochstetters became masters of finance and captains of industry. These houses, and especially the first, are of interest in many ways, but not the least important fact in their history is that they were closely identified with German mining, something unknown in Italy except on a minor scale in Calabria.

The Fugger family arose in the first decade of the fifteenth century from simple linen weavers in Augsburg. Originally interested in cloth weaving, the Fuggers of the fifteenth century branched out into the spice and linen trade. They had connections with Venice, where Jacob Fugger, first real head of the family, learned his trade. The Fuggers became interested in the opening up of the German mines, and with the Welsers and Hochstetters were one of the three or four great contributing factors in the progress of capitalism in Europe. The working of the silver mines in Tyrol began in 1487; copper mining in Hungary was begun in 1497; the money the Fuggers made in commerce was now available for the working of the mines. In 1494 the Fugger

company was incorporated under an imperial charter.

The Welsers were also interested in the silver mines of Tyrol and Saxony. They began the working of the mines at Schwartz in 1448; at Salzburg, in 1460; in Saxony, in 1471; in Bohemia in 1492. In Bohemia the mines had been closed for eighty years because of the Hussite Wars. The Welsers also operated iron forges in Thuringia. All this mining enterprise of the Welsers could not have been possible without the early experience of the family in trade. The money earned through previous commercial activity was now available for the working of the mines, the operation of which, in turn, afforded new facilities for the formation of capital. The material resources of Germany were in the lands of these Augsburg capitalists. They were the Guggenheims of the fifteenth and sixteenth centuries. The resources of Tyrol, Steiermark, the Alpine lands, Saxony, the Harz Mountains, Bohemia, in gold, silver, iron, copper, tin, salt—in other words, "die deutsche Erde"—were privately owned by these men.

Modern monopolistic tendencies in business are strikingly illustrated in the operations of these German capitalists. Small mining competitors were bought out by the huge Fugger organization by the payment of the debts of the small operators. After the mines fell in their hands, they spread out into the metal trade. In 1498 we find the first attempt to build up a syndicate by agreement. The result was a copper combination. At the beginning of the sixteenth century the Fuggers controlled the mines and metal sources of Germany, Austria, Bohemia, Hungary and Spain—the California, Nevada, Colorado and Montana of Europe. They owned the quicksilver and silver mines of Almaden and Guadalcaul in Spain.

Spain Proves a Bad Customer

THE Fuggers also established commercial and banking connections with the Spanish Hapsburgs, and even branched out into the enormously profitable spice trade of Spain's East Indian Empire, notably in the Molucca islands. But their vessels, for fear of the Portuguese and French, instead of reaching Europe around the Cape of Good Hope, crossed the Pacific to Chile, thence to Panama (where the cargoes had to be transported across the isthmus) and thence again by galleon to Spain. The highest point of prosperity and power of the Fuggers was attained in the time of Anton Fugger (1525-60) who left a fortune of six million florins as the inventory of his will, published in 1562, shows.

Not all the Fugger loans to kings and princes, however, were profitable. The balance sheet of the house in 1577 shows 6,558,059 florins of sound investments against 1,244,906 florins of bad debts, the chief insolvents being Philip II of Spain, and his great commercial city of Antwerp in the Spanish Netherlands. Sixteenth century governments were inclined to stretch their credit in time of war and to scale down or even repudiate their debts. International finance was a ticklish business in the period of the Reformation.

Philip II of Spain twice partially re-

EMPLOYING
the new low-
type counter,
and with its
vault easily ac-
cessible, the
building of the



First National
Bank and Trust
Company of
Hamburg, Pa.
has the strong
appeal of friend-
liness.

Build to Invite Acquaintance

TWENTY years ago the trend of banks toward better buildings was looked upon by many bankers as an extravagance. It was in those days, too, that banks refrained from advertising, and for much the same reason.

Opinion has changed. The old, poorly planned banks, with their insecure vaults and unattractive interiors are being replaced. Directors have concluded that *those* are the truly extravagant buildings. Such buildings can do little more for the bank today than give it shelter. Their appeal was to another day and another public.

Bank buildings of the modern type have done much to free banking from its former atmosphere of austerity. The banker has been effectively aided in inducing the public to acquire its more general acquaintance with banks and their functions which has been so great a factor in the growth of banking since 1900.

TILGHMAN MOYER COMPANY

The Design, Construction and Equipment of Bank Buildings

ARCHITECTS • ENGINEERS

LET us send you a copy of "Building the Bank for Business." Written by architects who have spent most of their professional lives in bank work, this book of 138 pages has given many bankers a new view of their building. It reveals to them why some bank buildings are successful while others are not. The coupon is for your convenience. Send it in today. The book will be mailed to you at once without obligation.

TILGHMAN MOYER COMPANY, Allentown, Pa.

Gentlemen: Without obligation, please mail me a copy of "Building the Bank for Business."

Name: _____

Address: _____

Bank Fixtures FOR SALE CHEAP

Thirty-two feet of mahogany bank screen, complete with counters, wickets, grilles, fifty feet of office partition, tubular bronze gate, two eight-foot check desks, etc. Cost \$4000, used five years. Send for photographs, blue prints and price for immediate delivery.

TILGHMAN MOYER COMPANY
ALLENTOWN, PA.

pudiated, and in 1607 Spain went completely bankrupt, owing the Fuggers then 3,500,000 ducats. Besides these Spanish debts, the Hapsburgs during the years 1574-1617 borrowed to the extent of 615,000 florins. In all the Hapsburgs contracted debts which amounted to 8,000,000 florins by the middle of the seventeenth century. Thus, much of what the Fuggers earned during a period of 150 years (1409-1560), was lost because of their banking operations with the faithless governments of Europe.

It might be added the discovery of America had some effect upon this condition. For the flood of silver and gold which

Guaranty Trust Company of New York

140 Broadway

LONDON PARIS BRUSSELS LIVERPOOL HAVRE ANTWERP

Condensed Statement, September 30, 1927

RESOURCES

Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers	\$179,050,959.36
U. S. Government Bonds and Certificates	26,827,302.42
Public Securities	25,290,912.29
Other Securities	24,779,531.74
Loans and Bills Purchased	426,724,380.82
Real Estate Bonds and Mortgages	3,917,013.33
Items in Transit with Foreign Branches	5,466,054.70
Credits Granted on Acceptances	58,397,323.06
Real Estate	7,429,275.75
Accrued Interest and Accounts Receivable	7,245,706.54
	<u>\$765,128,460.01</u>

LIABILITIES

Capital	\$30,000,000.00
Surplus Fund	30,000,000.00
Undivided Profits	3,657,084.45
	<u>\$63,657,084.45</u>
Accrued Interest, Reserve for Taxes, etc.	6,728,574.62
Acceptances	58,397,323.06
Outstanding Treasurer's Checks	34,347,354.26
Deposits	601,998,123.62
	<u>\$765,128,460.01</u>

poured into Europe in the sixteenth century from Spanish America demoralized the money market. Between 1492 and 1544 \$56,000,000 of gold and silver was dumped on Europe. In the single year 1545, when the famous mines of Potosi were opened, gold and silver to the enormous amount of \$98,000,000 was brought to Europe.

The Poor Driven to America

THE shrinkage of purchasing power of money across the centuries, at the same time that the volume of capital in Europe greatly increased, is an interesting phenomenon. For example, a fortune of 22,000 francs in 1200 was worth 16,000 francs in 1300; 7500 francs in 1400; 6500 in 1500. But in the sixteenth century, that is to say

in the epoch when Europe was flooded with Spanish American silver that fortune of 6500 francs shrunk to 2500 francs! It is no wonder that the seventeenth century was characterized by emigration of Europe's population to the New World. The settlement of New England, Virginia, indeed all our seaboard states, was largely due to the economic distress and social discontent in Europe.

Some conclusions may be reached as a result of the foregoing brief survey of early banking conditions in Europe. In the thirteenth and fourteenth centuries, as today, banking was a factor of business development. Its growth in that day was stimulated by the church, which then played a much larger part in everyday activities than is the case at present. The organization of

the institutions and their relation to the governments of Europe varied within the period according to time and place and circumstance, even as present banking systems have been the product of varying conditions. For one of the outstanding phenomena of the epoch is the close connection between the government and the bankers. This political activity of bankers has been indicated in connection with the operations of the Bardi and Peruzzi in England and in southern Italy, and the papal-imperial struggle is at all points illustrative of this connection. Then, as today, the unrestricted activity of banking houses proved disastrous and a system of regulation was resorted to with the double effect of curtailing action while rendering the residue more secure. A final characteristic which strikes home forcibly in this day of international financial activity is the wide scope of operation of the early banking houses. The international banker is not a product of the twentieth century, nor yet of the nineteenth.

Investment Trusts

(Continued from page 342)

financial structures of our newly organized investment trusts, that an attempt to establish classifications upon which to base generalities of approval or disapproval is more apt to confuse than to clarify. Each structure must be considered upon its own merits. Yet certain generalities are possible.

Our consideration of the financial structure of a trust must always start with the sum of money which an investor puts into the trust, and our effort must be to determine what value he receives, or is likely to receive, in return for his investment.

With regard to those instrumentalities which we have referred to as fixed list, bankers or trustee share corporations, it is possible to find the total market value of the securities which compose their units. This value should be compared with the price at which units are being offered to investors. A reasonable spread is, of course, necessary, to cover marketing expenses. But it is highly desirable to make sure that this spread is reasonable by taking the trouble to find out. Having discovered the actual spread, and having formed an opinion as to the general level of prices for the securities which appear in the fixed list, we shall have a basis for reaching our own conclusions as to the wisdom of investing in the particular units which we may be studying.

In considering trusts which have adopted the typical structure of the corporation by issuing bonds, preferred and common shares, with varying rights of participating in surplus earnings, we will find ourselves in a more familiar, though not necessarily a simpler field of investigation. There is no need to suggest that while these customary instruments can be and are used to establish a just apportionment of earnings and assets among their respective holders, yet at times and in other connections the justice of the apportionment has not always been self-evident. In considering this type of trust, one must know what contingent contracts may be held by the organizers—what options, if any, they have retained on unissued, junior or deferred shares, what rights they have, and what discretion they may exercise in the creation of new securities. In

most cases, where such options and rights exist, they are clearly defined. But even so, it is not always easy to compute their eventual effect upon the division of earnings between investors and organizers, and to decide whether the division is just.

Difficulties which may be encountered in attempting to analyze the offerings of investment trusts from this viewpoint should not, however, be charged to the investment trust as an institution, for they constantly appear in equal or even greater degree, to confound those who attempt to appraise sound or unsound structures in every form of corporate security offering.

Where Investor's Interest Defined

IT is perhaps these very difficulties which have led to the organization of another class of investment trust in which the attempt is made to define the investor's interest in unequivocal terms. An investor in this type of trust receives a certificate of beneficial interest upon which is set forth the amount subscribed and the proportionate part of the trust fund to which this subscription entitles him. Each subscriber creates in effect a separate voluntary revocable trust, to the extent of the amount of his subscription. Under this structure, a separate account is kept of the earnings of the fund applicable to each separate certificate issued, and these earnings are reported annually to each subscriber.

An investor in a trust of this type may repossess himself of his proportionate part of the assets of the trust fund by presenting his certificate for redemption, and is assured under the terms of the trust indenture of receiving the current market value of these assets, subject only to specified charges. All the securities and all the assets of the total fund thus established are held in custody by a trustee and an entirely separate organization is authorized to manage the investment and reinvestment of this fund, receiving for this service a stipulated and limited fee. In these trusts there is no difficulty in determining exactly what the investor's interests are.

I will not go further in describing the details of an investment trust of this class, for it is the class to which the funds operated by my own company would naturally fall, and it is reasonable to suppose that I have a strong bias in favor of this type of trust.

There are several reasons why an investment trust offering its services to the public should, in the indenture or other instruments governing the trust, clearly define the field in which it is to operate, and through the introduction of specific restrictions indicate to the investor that it is well aware of the pitfalls and hazards which in the past have at times engulfed even well-intentioned investment trusts. Some of these restrictions are quite obviously desirable. With regard to others, differences of opinion are sure to arise.

It is obvious, for instance, that an investment trust should, through proper restrictions, insure a reasonable diversification in the investments which it may hold at any one time. This is accomplished by establishing limits to the percentage of the total assets which may be invested in any one security.

This Book



~contains information that will help solve your building problem

LONG and careful deliberation generally precedes the erection of a bank building. Necessary data must be collected—floor plans, interiors and exteriors must be considered. To give you comprehensive information on such details, we have compiled this booklet.

May we send you a copy?

**ST. LOUIS BANK BUILDING
AND EQUIPMENT COMPANY**

Ninth and Sidney Streets ♦ ♦ ♦ SAINT LOUIS, U. S. A.

It is not so generally recognized that a limit should be placed upon the percentage which it is permitted to invest in any one industry. But again history presents the picture of well-informed financiers placing too great a proportion of the funds for which they are responsible in an industry concerning which they have possibly too intimate a knowledge, to the exclusion of a general knowledge of economic conditions which later overwhelm this particular industry.

Similarly, in those trusts which operate in many countries a limit should be placed upon the proportion of the fund which may be invested in any one country. Enthusiasm for South American investment in 1889 and 1890, based upon apparently sound premises, caused the downfall of some of the more

important British trusts operating at that time.

What Size Company

THE size of a company in which investment is permitted is worthy of consideration. A company with a relatively large volume of securities outstanding is likely to have more earnest financial support if it should ever require such assistance. Furthermore, a broader market for its securities is presented at all times. It is justly argued that some of the greatest profits have resulted from investments made in small companies, and this is true. But the mortality among small companies is heavier than in the larger units. At present in particular the tendency is for the larger units, able to

**Outstanding
in
Milwaukee**



(C) Aerial Photographic Service, Inc., Chicago; Charles E. McGrath, Inc.

FIRST WISCONSIN NATIONAL BANK

CAPITAL AND SURPLUS TEN MILLION DOLLARS

install costly labor-saving equipment, to furnish smaller units with a type of competition that is very hard for the small unit to meet.

An investment trust of the conservative type will contain restrictions against investing in newly floated issues which have not established their market. History again suggests that an investment trust dedicated to the service of investors should contain restrictions to preclude any possibility that its sponsors may in time of stress be tempted to use the trust as a repository for securities which would otherwise find no market. And yet, if an investment trust is organized by a group of successful promoters or underwriters, and it is used to assist them in their business, it may prove to be extremely profitable for the subscribers to its shares. Particularly will this be true in fair weather, when promotion profits are high and are obtained with a minimum of risk, and underwritings are universally successful. But again we must turn for guidance to the history of the investment trust in periods of financial strain, in periods when the sponsors of such a trust may be confronted by the alternative of allowing the trust to take over some of their unmarketable securities or of announcing their own insolvency. That is the kind of period which we must have in mind when we consider the merits of a trust sponsored and controlled by houses or groups active in the promotion of new financial structures and in the underwriting of securities. History suggests that a definite risk exists if such sponsors retain unrestricted freedom to deal with the trust on their own account. On the other hand, the risk involved may be adequately offset by the opportunities for profit which such a trust

offers to investors who could not participate in underwritings except through the instrumentality of a trust. The possible profits may offset the risk, and where highly responsible financial organizations sponsor such trusts no doubt they do. But of this each one of us must be his own judge.

THE danger lies, perhaps, not so much in the nature of the business as in too wide an application of the term "investment trust," which may lure an inventor who is in reality seeking the safety of a true investment trust into a more hazardous situation. Perhaps we shall gradually develop a new terminology in which the use of the words "investment trust" will denote an organization dedicated solely to the investor's interests, while we may use the title "promotion trust" or "underwriting trust" to define the somewhat different point of view of organizations conducting the types of business suggested. Some of the trusts which would fall into the promotion or underwriting category have clearly indicated in their corporate names the character of the relationship which exists between the trust and its sponsoring investment house. Such clarity can only be approved and encouraged.

I am of the firm belief that certain functions of great service to the investors of the United States can be performed better through the instrumentality of a soundly conceived investment trust under responsible and competent management than they can be performed in any other way. I regard it, however, as a most fortunate circumstance, auguring well for the future, that the trust companies are directing their attention to the rapid growth of the investment trust idea

in this country, for this growth is too rapid to be entirely healthy. As I have said, the trust companies of the country are in a singularly favorable position to influence the character of the future development of the investment trust as an institution for the protection rather than for the exploitation of investors. It will take time to reach conclusions concerning the many conflicting ideas which are being put forward by the advocates of one or another type of investment trust. But let us not be stampeded into endorsing any plan before we have reached such conclusions.

There is no necessity for an institution to accept the trusteeship for any investment trust or otherwise to encourage its organization, until it is sufficiently familiar with the investment trust field to rely upon its own judgment as to whether a particular trust is likely to bring credit or embarrassment.

A great many investment trusts have been organized in the last six months. Many more are in course of organization. The pressure to organize them is great, because in the present condition of the security markets investors who have for years managed their own funds with some success find themselves utterly unable to decide what is the best thing to do. They are turning in relief to the investment trust, shifting the responsibility of difficult decisions to someone they believe to be better equipped to make these decisions than they are. The question remains: Are all of the new investment trusts so equipped, or are many of them taking advantage of the investor's perplexity without themselves having any better grounds for assurance?

Over 400 Clearing

(Continued from page 345)

year. The response and cooperation from government officials, Federal Reserve banks, check manufacturers and hundreds of clearing houses and the larger industrial concerns are indeed gratifying. The universal use of standard checks is a matter of enlightened self-interest through the enormous saving effected in cost of checks and the saving of time in transit departments.

Bankers everywhere will be interested in the fact that Standard Warehouse Contract Terms and Conditions have been revised after exhaustive study by the American Warehousemen's Association in collaboration with the Clearing House Section and other interested industries, including representatives of the shippers appointed by the National Industrial League, meeting under the auspices of the United States Department of Commerce, to provide a mutually satisfactory and uniform form of contract that complies with the requirements of law. The Uniform Warehouse Receipts Act, now a law in forty-four states, was shaped and fostered by the American Bankers Association and the American Association of Warehousemen, and it is altogether fitting that these organizations should have collaborated in evolving a standard form that adequately carries out this intent as expressed in the law they formulated.

THE standard negotiable warehouse receipt is the authoritative form adopted by the American Bankers Association and the American Warehousemen's Association, and has the approval and indorsement of the United States Department of Commerce. With uniform contract terms and conditions on warehouse receipts, the use of these receipts as credit instruments is greatly facilitated. Through the use of standard warehouse receipts it will be possible for the banker to know that there has been presented to him an "honest-to-goodness" negotiable receipt—something that heretofore could be determined only by careful scrutiny. In the interest of uniformity and economy we commend the universal use of these standard terms and conditions on warehouse receipts.

The committee charged with the responsibility of revising the credit forms of the American Bankers Association, under the chairmanship of Judge Thomas B. Paton, with untiring energy examined a large number of bank credit forms, and after a great deal of study and correspondence have reported uniform standard credit forms for corporation, partnerships, individuals and farmers. These forms have been officially approved by the officers of the Clearing House Section and recommended for general use, thus making another forward step in simplification and efficiency.

During the past year the Clearing House Section of the American Bankers Association and the Associated General Contractors of America have been collaborating to prepare a standard financial statement and experience questionnaire for contractors which would be at once comprehensive in scope and simple in form. After numerous conferences we are glad to report that these forms have been formally approved by the

Clearing House Section and the Associated General Contractors, and recommended for general use by bankers and contractors. An examination of the standard financial statement and experience questionnaire reveals many advantages resulting from their use, among which we may mention that the standard forms are simple, comprehensive and uniform, and enable contractors themselves to keep a constant check on their financial condition. Their use will be helpful in eliminating some of the hazards of contractors' loans. Copies of the contractors financial statement were mailed to all clearing house banks, and the numerous letters of appreciation which we have received indicate their popularity and helpfulness.

Our Committee on Payroll Problems con-

ducted an extensive questionnaire survey particularly among bankers in industrial centers, and secured the advice of prominent industrial leaders as to the solution of payroll problems which are giving bankers and industrial leaders deep concern on account of the increasing hazards that surround the transmitting of payrolls from the bank to the customer. We find that bankers favor the substitution of check for cash in paying wage earners. It means more work for the bank, but diminishes the hazards of life and money. The records show that payroll bandits during the first six months of this year got over \$2,000,000 in loot and caused the death of a score of messengers.

Under the aegis of the Clearing House Section a Committee on Bank Auditing was

Constructive Auditing

An independent audit is to be regarded always as the means to valuable advice from the auditor or auditing firm.

Too often, auditing service ends with the report of the financial condition of (name) as of (date).

Auditors should be equipped—and should be employed—to offer recommendations in connection with method, policies, financing, etc.; to furnish comparative statistics intelligently prepared; to point out how mistakes and waste may be eliminated, and pitfalls avoided.

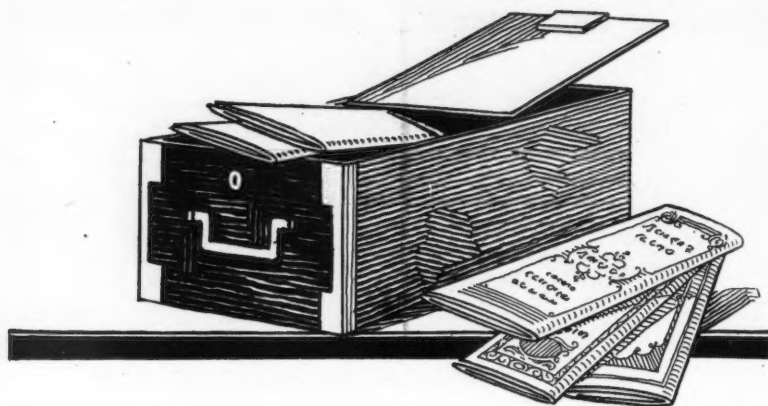
Of course, every audit should be a *Detailed Audit*. But whether it be *Detailed*, *Semi-Detailed* or *Balance Sheet*, it can, and should be made to, serve as the basis, not only of the financial report, but also for constructive help.

With the business man's appreciative understanding of this help, and the cooperation of progressive Public Accountants, Auditing becomes *Constructive* and offers its greatest value.

ERNST & ERNST

ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

NEW YORK	PITTSBURGH	CLEVELAND	CHICAGO	NEW ORLEANS
PHILADELPHIA	WHEELING	AKRON	MILWAUKEE	JACKSON
BOSTON	ERIE	CANTON	MINNEAPOLIS	DALLAS
PROVIDENCE	ATLANTA	COLUMBUS	ST. PAUL	FORT WORTH
BALTIMORE	MIAMI	YOUNGSTOWN	INDIANAPOLIS	HOUSTON
RICHMOND	TAMPA	TOLEDO	FORT WAYNE	SAN ANTONIO
WINSTON-SALEM	CINCINNATI	ST. LOUIS	DAVENPORT	WACO
WASHINGTON	DAYTON	MEMPHIS	DETROIT	DENVER
BUFFALO	LOUISVILLE	KANSAS CITY	GRAND RAPIDS	SAN FRANCISCO
ROCHESTER	HUNTINGTON	OMAHA	KALAMAZOO	LOS ANGELES



The "Why" of a Bond Reserve

A BOND investment reserve made up of readily salable issues is an effective buffer against unforeseen demands. That's why so many banks are substantial holders of well-diversified, liquid issues.

Our nationwide system of offices is not only a convenience when you want to buy—it can be of real service in locating buyers for bonds you may want to sell. Just get in touch with our office nearest you.



The National City Company

National City Bank Building, New York

Offices in more than 50 leading cities throughout the world

BONDS • SHORT TERM NOTES • ACCEPTANCES

appointed, of which O. Howard Wolfe is chairman and R. H. Brunkhorst vice-chairman. Functioning under this committee is the Associated Conference of Bank Auditors and Comptrollers—a real, live, active body, with a definite object in view.

EFFECTIVE work was done by our Committee on Clearing House Examinations, under the leadership of Chairman D. C. Williamson. The Clearing House Examiner System is now in successful operation in thirty-three cities, Atlanta and Dallas having recently installed the system. It has demonstrated its efficacy in promoting better and safer banking to a degree that prompts its extension to county districts, embracing one or more counties. In our humble opinion, putting and keeping our banking houses in order is the key to the preservation of our cherished system of in-

dependent banking. It is up to bankers to make and keep our banks safe and sound. Bank failures are public calamities, and all agree that banks must be made safe by some feasible means. Experience has taught the lesson that the best safeguards of sound banking are intelligence, plus financial integrity, supplemented by careful supervision. Now supervision that prevents bank failures is infinitely more valuable to stockholders, depositors and the general public than any political scheme of so-called state guarantee or liquidation after failure. The one is preventive in its nature, the other merely a post mortem process, which may reveal what the bank died of, but will not restore it to life.

It is becoming more and more evident that the extension of clearing house association work, including credit bureau features and the system of voluntary clearing house ex-

aminations, is the chief factor in the solution of the problem of safeguarding bank deposits. The plan has been in operation twenty-one years. The experience of thirty-three cities and groups of cities where it has been in operation demonstrates the fact that it has proved itself the best possible safeguard yet devised for keeping banks in prime condition and for giving the public the best available assurance that the banker's published statement is reasonably correct.

The work of the clearing house examiner is continuous, not periodical, qualitative, as well as quantitative, and admirably supplements the work of national and state examiner. A former Comptroller of Currency has characterized the clearing house examiner system as "infinitely superior to either state or Federal examinations" in keeping banks in prime condition, and this is no reflection on either state or Federal examinations, as plan and procedure are quite different and entirely free from political interference. The plan is sound, economical, effective and equally applicable to cities, counties and districts consisting of a group of counties.

The officers of the Clearing House Section earnestly advocate the general installation of the clearing house examiner system in counties and districts consisting of a closely related group of counties. We have been cooperating with bankers in several such groups of counties where there is a lively interest in this step and are hopeful that we will soon be able to report a real honest-to-goodness country district clearing house examiner system in operation.

Organized in Nebraska

PROBABLY the nearest approach to this consummation is the First Nebraska Bankers Credit Clearing House Association, which includes the banks of Dodge, Saunders, Washington, Douglas and Sarpy Counties, in the extreme southeastern Nebraska.

A representative of every state bank in these counties assembled at Fremont, Neb., on Oct. 4 and perfected an organization. It is fully expected that with the consent of the Comptroller of Currency every national bank in these counties will also shortly be included.

The Banking Department of the State of Nebraska has assigned to this district a special examiner who will have entire charge of this particular group of banks and will devote his entire time to their supervision.

The possibilities of this arrangement are enormous, and we earnestly expect the example set by these forward-looking Nebraska bankers will be emulated throughout the entire United States.

In the office of this examiner there will be, of course, assembled all the credit information applicable to the banks of the district. It will be his duty not only to criticize but to aid and assist in the collection of undesirable loans and investments, and their elimination from the portfolio of those banks of which he has charge, which successful conclusion will mean the swan song of more than one duplicate borrower. Economies of operation can be installed, and under his constant supervision the crooked banker, whether officer or employee, should vanish from the picture.

Legislation on Collection

(Continued from page 326)

for the credit of the holder with a bank other than the one upon which the instrument is drawn or where it is made payable. In such cases the holders not only do not demand but normally do not expect or even want payment in money. What they do want and expect in every such case (unless the contrary appears by some special circumstance) is not payment in money, but a transfer to the account of the depositor, through banking channels, of an amount of credit equivalent to the money called for by the check, draft, or note. The number of transactions where that is not the case is less than negligible.

"So it seems to me that we are submitting this case to decision upon an archaic rule, one utterly out of harmony with modern banking practice. If banks everywhere should put in practice the premise that only currency or coin should be taken in payment of individual checks and drafts, the fiscal system of the country would break down at once under the excessive demand for money. Not only does the premise of the right to payment in money, unqualified by banking practice and commercial custom, seem obsolete, but it also seems out of harmony with our statute. But as the similar rule of the Federal Reserve Banks was before the Supreme Court in the Malloy Case, our error, if any, in following that case is on the side of conservatism, and one that can easily be corrected by the Legislature if it desires that the law should be otherwise than we are now finding it to be."

A Decision Worth Citing

JUSTICE STONE has expressed the fallacy of the Malloy decision in such clear and concise language that it seems to us a copy of it ought to be put in the hands of every Superior Court in the United States. To me it is interesting as the first expression we have seen of the opinion of a member of a court clearly admitting that banking practice today is entirely different from what it may have been some seventy-five years ago. In this connection, we also ought to refer to an opinion expressed by George Bryan, Counsel of the Virginia Bankers Association, Richmond. It is Mr. Bryan's opinion that the Malloy decision is both harsh and impractical.

As bankers, however, we should not sit supinely by and await spontaneous action by state legislatures nor expect courts to take the initiative. Thus far little if anything has been done except, following the Malloy decision, there was a frantic revision of disclaimers all over the country as banks sought to protect themselves in accepting out-of-town checks. As one exponent of good banking aptly put it, banks have put themselves in the position of putting ambulances at the foot of the cliff to take care of the crippled, instead of putting a stout fence at the top to keep people from falling over. In the judgment of Mr. Bryan, one of the effects of the Malloy decision, if taken literally, is to compel every bank to be an insurer of the solvency of the banks upon which it accepts checks for collection.

The provisions which remedial legislation

should include admit of considerable discussion. The language of the Supreme Court in the Malloy case itself hints at one possibility. For example, it is stated therein: "There is nothing to prevent the sending bank from requiring the drawee to remit currency as a condition upon which the check may be satisfied and charged to the account of the drawer." What assurance we have that the drawee bank in financial difficulties would act favorably upon the request does not appear. I do not know whether Judge Paton in preparing the form of disclaimer which he recommended to members of the American Bankers Association took this hint into consideration or not, but in any event it would appear to be an entirely impractical suggestion, and in view of the fact

that there is no legislation which compels a bank to remit at all, it might also tend to create a situation more to be avoided than the present risk.

A Possible Predicament

FOR example, suppose a country bank should receive a check with instructions from a city bank that unless it remits actual cash the check should be returned. It would be an interesting legal puzzle should the bank charge such a check to the account of the drawer and fail before the currency could be got together and dispatched. A court having to decide upon such a question would find itself in the predicament of the chameleon on a piece of Scotch plaid.

Another thought which we find in the opin-

Isn't Collateral Better Than Net Worth As a Loan Basis?

Let us show you how, without expense to the bank, loans to any manufacturer can be secured by warehouse receipts covering his raw materials or finished products.

The Lawrence System of Field Warehousing enables the issuance of bona-fide warehouse receipts through the creation of a legally perfect public warehouse in the plant of the borrowing manufacturer.

The Lawrence System is heavily endorsed by leading bankers everywhere.

Write For a Copy of Our Booklet Entitled
Lawrence System Field Warehousing.

*It will show a way
to new profits*

LAWRENCE WAREHOUSE COMPANY

A. T. GIBSON, PRESIDENT

37 Drumm Street, San Francisco

Chicago . . . 29 South La Salle Street Portland 403 Hoyt Street
Philadelphia . . Public Ledger Building Seattle Dexter-Horton Building
Los Angeles . . . W. P. Story Building Oakland Gibson Terminal

INTERNATIONAL ACCEPTANCE BANK

INCORPORATED

*International
Banking Transactions*

Reimbursement Credits

Foreign Exchange

Bonds and Securities

Collections

Bullion and Currency

**International Acceptance
Securities & Trust Company**

(Owned by International Acceptance Bank, Inc.)

Trustee
Registrar

Fiscal Agent
Depository

Member Federal Reserve System

PAUL M. WARBURG
Chairman

F. ABBOT GOODHUE
President

52 Cedar Street, New York

ion of the Supreme Court in the North Carolina case is "that there is nothing to prohibit a depositor from consenting when he draws a check that payment may be made by draft." In other words, should we give consideration to a provision that all checks should bear upon the face a statement to the effect that the drawee bank might at its discretion remit a draft rather than cash in payment, thus putting the payee upon notice upon what terms he is accepting the check in payment of the debt. This is such a radical departure from present banking practice and custom as to preclude the possibility of its general adoption.

We may at this point consider what has already been done in four States—Minnesota, California, Montana, and Utah. Min-

nesota and California have simply legalized the ordinary disclaimer such as is used by most banks since the Malloy decision, and contains no new thought. Montana takes the same position with respect to the provisions covering the responsibility of the bank in acting as agent for the collection of a check, but adds an additional provision: "The obligation of the maker upon any such check, note, draft, or negotiable instrument so handled for collection shall not be discharged by the charging of such item to him on the books of the drawee bank or by the surrender of any such item to him by the drawee bank unless or until such remittance draft be paid." Utah has taken an entirely different position, and gives preference to "claims based on checks, drafts, authoriza-

tions to correspondents to charge account, or other instruments issued by any bank or trust company in exchange for or in settlement of any bills, notes, checks, etc., received for remittance and not for deposit."

Each of these three methods can be commended, but none of them fully solves the difficulty, and they all lack the very desirable quality of uniformity.

Suggested Legislation

ASSUMING that bankers, business men, and courts and state legislatures would all agree that the use of checks in payment of debts is not in any way to be hampered, but rather encouraged in every possible way; admitting the economic value of this highly developed instrument of American banking, then it would seem that any legislation to be equitable to all parties concerned, and sound both from an economic as well as from an accounting standpoint, ought to contain these definite provisions:

First, that the bank of deposit has the right either to send an out-of-town check directly to the bank upon which drawn, or to use one or more intermediate agents for that purpose.

Second, that in the case of local checks, a bank shall be permitted to present such check for payment through the clearing house, and shall not be held negligent if it fails to make presentation across the counter of the drawee bank.

Third, that it shall be permitted to accept in payment the draft of the drawee bank or a solvent credit. It would be necessary to define a solvent credit, which might be done by including a provision that the drawee bank must be open for business for a specified time following the payment of the item.

Fourth, that in the event of the failure of a bank before its exchange draft sent in remittance of checks should be paid, that such draft should be returned to the drawee bank, which should recredit to its depositor's account such checks as were covered by the draft in question, these checks to be returned to the bank from which received, and by such bank returned to the original depositor. This provision would put the burden upon the drawer of the check to look to the receiver of the failed institution instead of placing that burden as it now is upon the payee.

Fifth, the same principle should be applied to checks presented through the clearing house and charged to depositors' accounts, if the drawee bank fails before settlement is made with other members of the clearing house.

Sixth, that checks on non-clearing house members may be presented at the counters of the drawee banks, and the banks making presentation of such checks shall be authorized to accept a draft in lieu of cash, and subject to the same considerations mentioned in the foregoing provisions. Although it is not strictly a part of the subject under discussion, it would not be amiss to include in new legislation a provision that a bank receiving on deposit a check drawn upon itself would have the privilege of returning such check to its depositor the following morning if, at the close of business day of deposit, the check is found to be not good.

The Situation Summarized

BUT whatever may be the form or intent of legislation ultimately enacted, it should be drawn with very careful consideration of the following facts, which may be submitted as a sort of summary:

All commercial banks receive on deposit checks drawn on both local and out-of-town banks. Relatively only a small amount of currency and coin is deposited. Credits to depositors' accounts consist mostly of checks or of proceeds of loans and discounts. Banks in reserve cities and all large banks everywhere handle daily checks payable on thousands of banks throughout the United States. A large part of these items are payable in what are known as "one bank towns," hence checks by the hundreds of thousands must be and are sent daily for collection and remittance to banks on which the checks are drawn. Other thousands are presented for

payment through Clearing House Association.

It is impossible for banks to secure reliable credit information at short notice concerning all of the banks upon which they must accept these checks for collection. It is impracticable to send out checks with the request for cash remittance to such banks concerning which the sending bank may be in reasonable doubt. Even assuming that this could be done, and compliance with such requests legally enforced, demands for cash payment could very readily cause damage and undeserved injury to sound banks. It would be difficult for such banks to escape the effects which these requests would have upon their credit standing. If persisted in, it would cause serious loss to the drawee bank due to the necessity of keeping an unwarranted amount of cash on hand, this loss in addition to the actual cost and expense of continually shipping in cash. The question of loss and responsibility therefor, only arises when a bank fails. Since there is no legal obligation upon any bank to remit in cash or otherwise, it is only natural that a weak bank, compelled to use every means at hand to conserve its cash position, should disregard such request, and it is obviously unfair to penalize the sending bank for failing to do what actually it is impossible to do, namely, demand and secure cash at will. Under the Malloy decision, banks of deposit have but two alternatives: Either to assume the risk of insuring the solvency of every bank upon which they accept checks for collection, or to refuse all checks offered them on deposit; i. e., go out of business as a bank of deposit.

Disclaimer Inadequate

THE disclaimer method of avoiding risks is inadequate because it offers no protection to the payee or depositor, and merely "passes the buck" without getting at the root of the trouble.

Banking practice is sufficiently well established to warrant the enactment of uniform legislation by the various states. Such legislation should be comprehensive and inclusive, and it should be devised with due respect to the rights of all parties concerned in check collection. It must do no violence to established economic and business practice. Primarily, it should be the purpose of such legislation to correct the inequities and limitations of common law based on court decision, which are clearly archaic and out of harmony with modern business and banking requirements.

Clearly it is the duty of the American Bankers' Association, through its various legislative committees and sections, and with the aid of state associations, to prepare and present the necessary legislation as soon as possible. We can think of no opposition which would be encountered from any interest involved, nor is the character of the needed legislation subject to much difference of opinion.

A very desirable "by-product" of such legislation as we have suggested would be a provision defining the true intent and effect of a bank endorsement stamp used on checks accepted for credit and collection. There is much confusion at the present time due to the fact that although the matter of endorsements is covered in the Negotiable Instru-

ments Act, that act does not cover in any way, except by indirection, the problems discussed in this paper, the solution of which might affect endorsements. In providing for a new form of endorsement, it would also

be possible to designate a form of endorsement very much shorter, and hence more economical, than the present. "Pay any bank, banker, or trust company—All prior endorsements guaranteed."

Traylor Honored at Testimonial Dinner

ONE of the most impressive events during the Houston convention was the testimonial dinner to Melvin A. Traylor, given by the bankers of Houston. One of the speakers was Governor Dan Moody of Texas, who expressed the pride of the state in having started Mr. Traylor off on his successful career in banking.

There were several other banquets during the convention, among which were the annual subscription dinners of the Association of Reserve City Bankers and of the

alumni of the American Institute of Banking.

On the evening of October 26, President Preston gave a dinner to the incoming state vice-presidents of the American Bankers Association, the presidents and secretaries of the state bankers associations and the staff of the American Bankers Association.

Complimentary dinners were also tendered by the Houston bankers to the officers of the several Divisions.

MORE than 2,000 banks of the United States purchase these notes for prime, short-term investment.

Checkings available in any financial center and complete credit data on request.

Industrial Acceptance Corporation

FINANCING STUDEBAKER



DEALERS EXCLUSIVELY

Collateral Trust Gold Notes

(THE NATIONAL CITY BANK OF NEW YORK, TRUSTEE)

Executive Offices

GRAYBAR BUILDING, NEW YORK

[Lexington Avenue at 43rd Street]

Commercial Paper Offices

NEW YORK • CHICAGO • ST. LOUIS • MINNEAPOLIS

SAN FRANCISCO • DALLAS

CANADA

With over 600 Branches located throughout Canada, the Bank of Montreal is in a position to handle Banking Business in any part of the Dominion promptly and to the best advantage. American Banks and Trust Companies will find in this Bank's service valuable co-operation in connection with their Canadian Business.

THE BANK HAS ITS OWN OFFICES

in

New York, Chicago and San Francisco

*Direct Wire Service between Montreal,
Toronto, Winnipeg, Vancouver,
New York, Chicago and San
Francisco Offices.*

HEAD OFFICE: MONTREAL

BANK OF MONTREAL

Total Assets in Excess of \$780,000,000

NEW YORK AGENCY - - 64 Wall Street
CHICAGO - - - 27 South La Salle Street
SAN FRANCISCO - - 264 California Street

The Way Out in Taxation

(Continued from page 332)

considerable in proportion to the benefits of public administration. Bankers can largely determine which, and it is partly because our study of taxation must from now on take in a far wider field than banking alone that I have stopped to consider what the states can do if they find bank taxation more closely limited than they had supposed it was.

But we must not be led now into a general discussion of taxation. National banks do not desire advantage over state banks or trust companies, and, of course, any limitation of the taxation of national banks will, as a practical matter, inure to the benefit of state institutions as well. We agree, do we not, that in the interest of all classes

of banks the national safeguards against over-taxation should be maintained as they are, and that the shares of national banks must not be taxed more highly than competing moneyed capital, no matter who owns it. We agree that states that find their revenue likely to be impaired when this safeguard is invoked have a considerable choice of substitutes they can tax. I am sure, too, that we all agree upon the grave importance of the issue, and that if it comes to controversy we shall every one of us take part and show how necessary to the highest integrity of our banking system are the existing national safeguards against excessive taxation.

Pooling Trust

(Continued from page 343)

ment experts know that each trust must stand upon its own feet and they select their investments accordingly.

There is another point in connection with the possible adaptability of investment trusts to trust company practice. One of the most frequent criticisms of the investment trust plan is that the management often refuses to publish a statement showing their holdings. It is probably true that skilful management of these investment trusts involves a degree of secrecy with regard to holdings, for fear of creating unfavorable psychological effect upon the market if such holdings become known, particularly when held in large blocks. Yet any idea of withholding information from beneficiaries as to the contents of portfolios in which they have beneficial interests is repugnant to trust company policy, and would at once bring down criticism from the public which it would be difficult to overcome.

Types of Trusts Now Used

THERE are two types of investment trusts in general use. One is the so-called "mobile trust," which is frankly speculative in nature, dealing largely in fluctuating stocks, trading freely, going in and out of the market at presumably favorable times. We may dismiss any thought of adopting the "mobile plan" in so far as trust investments are concerned. Arguments against it are too obvious. The whole theory is opposed to sound trust company administration.

The other plan is known as the "static investment trust," and apparently it leans more toward conservatism. Under this plan presumably sound diversified securities are purchased and put into the portfolio, and then held "for better or for worse" for all time to come. It is stipulated that nothing in the portfolio shall be sold out, whether it goes sour or not, the investors relying upon diversification to produce a good average return. Obviously, each participant in the trust must own one or more complete salable units of each of the securities held, so that if he desires to cash in he may do so by withdrawing and selling those units.

If trust companies had to choose between the "mobile" and the "static" form, undoubtedly they would adopt the latter, and yet it is impossible to conceive by what machinery this form of trust could be made available to the general run of trusts handled by trust companies. Obviously, it would be feasible only for the large trusts which had sufficient funds to purchase a complete salable unit of each security held in the portfolio, and such large trusts are able to obtain the chief, if not only advantage offered by the "static" plan, namely, diversification, by making up their own individual diversified portfolios, without mixing up with other trusts in a pool.

No matter what form of investment trust is offered, mechanical and administrative difficulties of throwing funds or securities from different trusts into the pool at different times and in different amounts, to be withdrawn at different times and in different amounts, seem to be almost insuperable from a bookkeeping standpoint. It is difficult to see how a trust

could be settled, or how cash could be raised for a trust which had its assets tied up in a pool, without selling some of the securities held in the pool. Certainly it would be necessary to liquidate a sufficient portion of the portfolio to raise the cash equivalent of the beneficial interest under liquidation, and it would seem to be impossible to do so in such a manner as to make an equitable adjustment with other trusts in the pool.

The theory of the investment trust is that each participant has an undivided proportionate interest in the entire portfolio, and yet unless the trust to be liquidated chanced to be exactly equal in value to so many integral units of each of the securities held in the portfolio, which is highly improbable, it would be necessary for the trustee arbitrarily to assign to the trust a sufficient number of whole shares in certain of the securities to make up its value, and to do that would necessarily affect the rights of other members of the pool. The only alternative, apparently, would be for the trust company to itself carry a certain portion of the beneficial certificates, selling to or buying from individual trusts as the need arose.

But there are many reasons why it would seem to be unwise for the trustee to participate in such a pool. Equally important objections seem to apply to the proposition of having the various trust companies co-operate in forming a separate investment organization for the purpose.

There are other grave difficulties which would have to be overcome. It is well known that different earning rates are sometimes advisable for different trusts, and in many cases trusts must have assigned to them specially selected securities in order to protect them against high income taxation. In fact, nearly every trust requires some special kind of treatment, and it would seem to be necessary to have a dozen or more different kinds of pools, varying in earning rate and taxability, maturity dates, etc., to suit the various kinds of trusts in hand, and if one should carry out this classification far enough to make it possible to serve the best interests of each and every individual trust administered, we would soon be back to the point from which we started, namely, a separate portfolio for each individual trust.

Another serious difficulty is that many trusts, both living and testamentary, prescribe the exact method of making investments, limiting the type of securities for trust funds, or giving specific property in the trust to certain designated beneficiaries at different periods or at final termination of the trust. In such trusts there would be no possibility of joining in a trust investment pool. Such a pool would be largely confined to cash and possibly selected securities coming into the trust.

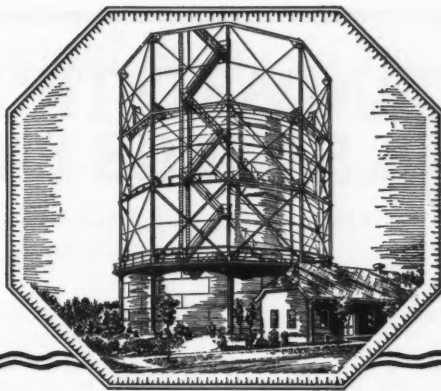
WHILE it is true that in California trustees are allowed to issue participation certificates against a single mortgage, and in some other states trustees are allowed to pool one or more mortgages and issue participation certificates against them, this practice is limited only to investments of a prescribed character wholly within the control of the trustee, and has not yet been sufficiently seasoned to be called successful. This practice is probably

as far as the legislatures will at present go, or trust companies recommend. It has some disadvantages now. At the termination of any trust it is necessary for the trustee itself to take up participation certificates in such mortgages at par and accrued interest until they can sell them to another trust. If any mortgage against which such participation certificates were issued should be foreclosed, it would become a difficult problem to work out the ownership of the property taken on the foreclosure and its ultimate disposition.

These are some of the objections and difficulties which appear to stand in the way of the application of the investment trust plan to trust investments, and yet the

enormous growth of trust business during the last decade prompts one to view each new problem which arises from its broadest aspects, for in spite of well established laws and customs it is conceivable that the scientific study now being given this class of business may develop benefits to society which would justify a change in traditions and laws relating to trusts.

Further discussion of the plan of pooling trust investments should be invited and may offer some constructive suggestions and thoughts for improving present methods of investing trust funds, but it is doubtful whether the time is ripe to either change the numerous laws to enable its accomplishment.



Sub-station and gas holder of the Public Service Company of Colorado, an important Cities Service subsidiary

More than 100 Companies Diversify Your Investment in Cities Service Securities

When you invest in Cities Service Company securities your dividends come from more than 100 subsidiaries spread over North America from lower Canada to Mexico. The Cities Service subsidiaries are active in three great industries—electric light and power, manufactured and natural gas and petroleum.

Its diversified sources of income from essential products are in great part responsible for the steadily growing earnings of the \$650,000,00 Cities Service organization

Clip and mail the coupon for full information about Cities Service Common stock which at its present price yields you about 8½% in cash and stock dividends.

**Henry L. Doherty
& Company**

60 WALL ST. NEW YORK
BRANCHES IN PRINCIPAL CITIES

H. L. Doherty & Co.
60 Wall St., New York
Please send me, without
obligation, full information
about Cities Service
Common stock.

Name

Address

(147)-221

STANDARD TRUST & SAVINGS BANK

Member Chicago Clearing House Association
Member Federal Reserve System

A Quality Service

To bankers having any business in this territory, we offer the services of an officer of this bank, feeling that such a personal service will be helpful to you.

The Officers

CHARLES S. CASTLE.....	President
WARD C. CASTLE.....	Vice-President
ROBERT M. CAMPBELL.....	Vice-President
T. R. THORSEN.....	Vice-President
MARTIN A. OLSON.....	Assistant Vice-President
LEO J. TALLEUR.....	Cashier
JOSEPH C. BARTH.....	Assistant Cashier
W. ROWLAND MONROE.....	Assistant Cashier and Auditor
THOMAS G. WILSON.....	Assistant Cashier
H. W. HAWKINS.....	Vice-President and Secretary
FRANK R. CURDA.....	Trust Officer
JOHN S. CROSSLEY.....	Assistant Secretary

Chicago

Keeping Down Banking Costs

(Continued from page 349)

the sake of higher rates, losses are inevitable. Banks that regulate their interest rates by the grade of security offered from the borrower, which is proper, have found that their losses are from loans bearing high rates.

"If too much attention is paid to high rates under the urge of impoverished earnings, the losses are more serious than from the deficit resulting from the small but usual income from prime loans."

Thus it is seen that the former sources of revenue have been cut off. At the same time, the cost of doing business has been on the rise. Everyone is vitally conscious

of the fact that taxes never grow less. If one taxing authority inaugurates an era of economy, another starts a spasm of spending.

Clerical help is underpaid, especially when salaries of office workers are compared with the average wage received by those engaged in skilled trades, where the apprenticeship is shorter and the requirements of good character and pleasing personality are not nearly so rigid as in the banking business.

Again, reserve requirements are stricter for all banks. Members of the Federal Reserve System receive no interest on their balances; exchange charges have been prac-

tically eliminated. So it is that every change made seems to pound down bank earnings a little further.

A Change Is Imperative

CERTAINLY it is not good for the banks for the present trend to continue. It is not good for the public, either. The remedy lies in adding a reasonable service charge for handling unprofitable accounts, and transacting miscellaneous business of a non-lucrative nature.

Thus far the problem has been viewed from two angles—increased interest paid to depositors and increased expenditures incident to operation.

Now comes the final element in the problem—losses, a subject close to the heart of every bank commissioner. When the general public thinks of bank losses, official defalcations and dishonesty naturally come to mind.

True enough, this is one cause of loss, but only in isolated cases. Close and careful supervision will reduce this evil to a minimum.

Another cause of loss is mismanagement. Here again the way out lies through education and a weeding out of the inefficient and those temperamentally unfit for banking business.

Many losses are attributable, primarily, to commercial banks furnishing capital to customers instead of credit. No loan secured by stocks should be acceptable to, or passed by, any bank, unless the stock of the company has a commercial value, or unless the company has been in operation long enough to prove its standing.

Trouble in Excess Credits

ANOTHER source of constant difficulty comes from the fact that too many banks are furnishing credit to special lines in excess amounts. These lines, unfortunately, are often found among the bank's own directors. No director can competently serve on the bank's board where that bank is carrying for him a large line not fully secured, or self-liquidating.

Finally, many losses may be traced to the atmosphere of easy credit. This is bad training for the public mind. All too frequently the facilities of a bank and the friendship of a banker are both abused. The officers of a bank are often responsible for the false notion of easy credit. No wise banker will allow himself to be placed in such an awkward position. Yet, in the country bank, the active officer must be a versatile man, and the problem of attracting business and at the same time passing judiciously and wisely on credits is most difficult.

No bank which serves gratuitously as bookkeeper and public accountant for the community can expect to secure any return on the vast majority of its accounts. Such services prohibit him giving the bank the required attention. No sensible depositor, no reasonable man, can expect a banking institution to spend its energies and drain away its strength in such fashion as to destroy its ability to come to the aid of worthwhile business enterprises, and prevent it from serving as a financial bulwark in periods of stress and strain—the very purpose for which it is organized.

Adjusting Banking to—

(Continued from page 324)

cess of elimination he will find that certain banks do not require immediate attention. This does not mean that he should not drop in on his rounds of visiting, touching lightly here and there as the circumstances require, but it does mean that he should strike at the weak points first. The reports will show him the banks that are struggling along and needing help. It should be his aim and his solemn purpose to relieve the distress in such banks immediately by using every known practical method of improving the bank's note case and, after this has been done, turn his attention next to the second step, viz., increasing its earnings.

Developing New Revenues

THE average bank has sources of income which are untouched. A clever bank examiner will point the way to these sources and utilize them through service charges and otherwise. He can influence competing banks to take these steps of salvation. He will find in small towns two or three banks, all operating at a loss. By careful application of sound business teaching he will soon be able to consolidate some of these banks into stronger institutions, thus rendering a very great service to the bankers themselves, as well as to the people of these various communities.

As a result of the method of doing the necessary work first, he can give a great deal of time to this rejuvenation work, instead of extravagantly using his time striking balances in banks, which primarily is not profitable work. This does not mean that balances should not be taken and reports should not be made, but it does mean that the important and necessary things should be done first. Our troubles do not arise from poor bookkeeping, but rather from poor note cases and lack of revenues.

What is the object of the state in examining banks, anyway? Was it not originally designed that banks should be examined for the purpose of seeing that they were performing their functions? Notwithstanding this great purpose the various banking departments of the country seem to have completely lost sight of the main objective and have reduced their activities merely to that of auditing departments with formal reports to the commissioners of banking, who perfunctorily attempt to administer the findings of the reports by mail.

Their objective should be that which was contemplated by the legislatures, which created these banking departments, viz., the supervision of banks with a view of guaranteeing to the people that they perform their functions.

The Examiner's Real Duties

TO do this an examiner must be an executive officer in effect. He must sit with banker in an effort to see that these sound banking practices are observed. If not it is his plain duty to see that they are observed. If note cases are not sound, he should find the cause for these unsound conditions and remedy them at the very earliest possible moment, even if he finds it neces-

sary to bring the borrowers into the bank, one by one, and go to the very root of the difficulty. The cause should be removed, whatever it may be, and as a rule, the cause will be found in the unsound ideas that the banker possesses in regard to the conduct of a bank and his duty then would be the replacement of these ideas of unsound banking with those that will produce better results.

The examiner, living at home with his family, is contented. He can drive each day to the remotest bank in his district, make such casual examinations and such specific recommendations as he may see fit and call on probably a half dozen banks on the trip, going and coming, completing other minor details of supervision by keeping in close touch with his banks.

Instead of giving up his entire time to

National Bank of Commerce in New York

Established 1839

Statement of Condition, October 10, 1927

RESOURCES

Loans and Discounts.....	\$836,729,584.13
United States Securities.....	64,778,922.77
Other Bonds and Securities.....	27,166,390.40
Stock of Federal Reserve Bank.....	1,950,000.00
Banking House.....	4,000,000.00
Cash in Vault and in Federal Reserve Bank..	43,463,806.94
Due from Banks and Bankers.....	110,526,838.25
Interest Accrued.....	1,694,848.81
Customers' Liability under Acceptances.....	40,936,012.36
	\$631,246,403.66

LIABILITIES

Capital.....	\$25,000,000.00
Surplus.....	40,000,000.00
Undivided Profits.....	4,197,459.03
Deposits.....	467,799,425.03
Bills Payable.....	5,000,000.00
Reserved for Interest, Taxes and other Purposes.....	7,259,219.60
Unearned Discount.....	1,090,213.64
Liability as Acceptor, Endorser or Maker on Acceptances and Foreign Bills.....	80,900,086.36
	\$631,246,403.66

Chairman of the Board
JAMES S. ALEXANDER

President
STEVENSON E. WARD

Directors

JAMES S. ALEXANDER	CHARLES E. DUNLAP	VALENTINE P. SNYDER
JOHN W. DAVIS	HENRY W. de FOREST	HARRY B. THAYER
ANGUS D. McDONALD	JAMES TIMPSON	
JOHN T. DORRANCE	GEORGE E. ROOSEVELT	STEVENSON E. WARD
EDWARD D. DUFFIELD	CHARLES B. SEGER	THOMAS WILLIAMS

THE FIRST NATIONAL BANK of Birmingham, Alabama

Capital and Surplus and Undivided Profits over \$ 5,500,000.00
Deposits over \$42,000,000.00
Total Resources Over \$50,000,000.00

OSCAR WELLS, *President*
K. W. BERRY, *Vice-President*
THOMAS BOWRON, *Vice-President*
CHAS. F. ZUKOSKI, JR., *Vice-President and Trust Officer*
F. S. FOSTER, *Cashier*

PAUL ANGELL, *Asst. Cashier*
W. D. ROBERTSON, *Asst. Cashier*
W. C. O'FERRALL, *Asst. Cashier*
WADE FLEETWOOD, *Asst. Cashier*
E. C. WOLTERSDOFF, *Asst. Trust Officer*
B. F. CLOWDUS, *Auditor*

TRUST DEPARTMENT ~ BOND DEPARTMENT ~ SAVINGS DEPARTMENT

DOMESTIC AND FOREIGN EXCHANGE
SAFE DEPOSIT AND STORAGE VAULTS

They still like to be remembered



—and one good turn deserves another, especially with a calendar because of its utility, and more especially ETCH-ART Calendars because in workmanship and design they are the creation of master Etch-Crafters.

ETCH-ART Metal Wall Calendars say "Happy New Year" in a way that suggests stability and security. Their quality is a proven influence in creating and maintaining good-will.

Any wording or design is etched (chemically engraved) on the face. Daily date pad is secured by clamps. Pads replaced year after year—an economical and long-life publicity.

Just one of many styles.

Let us quote prices.

L. F. Grammes & Sons, Inc.

Allentown, Pa.

Manufacturers of Wall and Desk Specialties, Key Chains and Tags.

this more or less useless work of auditing, he gives more of his time to supervision and administration where it is vitally needed. There isn't one bank in a thousand, which fails, whose failure can be attributed to bad bookkeeping. The failure is attributable directly to mismanagement and competition. The examiner can influence tremendously these factors. He can influence the management. He can influence the competition. He can raise the qualifications of the banker by carrying on an educational program on his numerous visits.

Without doubt the aims and purposes of an examiner, as covered in this outline, are in harmony with the objectives that the various legislatures had in mind when they

created banks and set such restrictions about them as they thought would safeguard the people. The trouble has been that everybody becomes muddled about these very simple matters and the objectives are so hidden and obscure that the purposes of the states have been lost.

An Experimental District

IN order to demonstrate the feasibility of this plan an experimental district has been set up at Fremont, Neb., known as the "First Nebraska Bankers' Credit Clearing House Association," and it is now commencing operations. It is the first attempt in the United States to utilize the advantages of

the city clearing house with examiner through the legally established banking department.

The state examiner assigned to this territory lives in Fremont. He has been provided with an office and a secretary by the bankers of the district, who are united in an association with the above title for credit clearing house purposes.

This association is wholly voluntary co-operating with the examiner and for the purpose of aiding him in an advisory way whenever called upon to do so in difficult cases that come under his supervision.

The district includes all state banks, of course, because the bankers of the district are as much concerned about the weak banks as they are about the strong ones, and the examiner, of course, examines them all because he is a state examiner assigned to this district.

It is hoped that within a few months from the date of the organization of this district the system will be effectively working with a complete credit bureau in operation and possibly with an assistant, furnished by the association, accompanying the examiner merely for the purpose of aiding banks here and there to carry out the findings of the examiner, whatever they may be.

A Great Saving Assured

THE credit bureau will be established at the same time under the supervision of this assistant. The information gathered from bankers and from the examiner will suffice to spot every duplicate borrower and classify him. This information will be given only where it is needed and to those who are interested. It goes without saying that in the course of a year these five counties will save tens of thousands of dollars that they have lost heretofore.

What we are attempting to do in this district, with great promise of results, can be done by banking departments throughout the United States without practically any additional legislation at all. It is now within the power of banking commissioners everywhere, practically speaking, to apply this policy. They can create districts and establish an examiner in each of these districts with responsibility for his work and give aid and encouragement to the bankers of the district to organize clearing house associations with credit bureaus and assistants that will make the system perfect.

No clearing house association with examiner now in existence seems to possess any advantages whatever over the system we have established in this district at Fremont. The results, that have been obtained by these clearing house associations with examiners, have proved to be highly satisfactory but there are only thirty-five of them in the United States and they do not affect the great mass of bankers and banking communities, but through this simple method, that is being demonstrated at Fremont, it would appear to be within the range of possibility for the great bulk of the states of the Union to have the full benefit of a clearing house association with examiner and credit bureau combined. The only thing necessary to change is the viewpoint of the commissioners themselves.

Making Investments

(Continued from page 330)

years ago the bulk of publicly owned securities was rails. Financial pyramiding, incompetent management and other abuses did not entirely destroy faith in the essential value of these securities. Transportation is a prime necessity. Railroads are permanent. They operate on a cash basis. They show relatively good earnings. So, despite the event of many defaults and receiverships, railroad bonds are a favorite medium for conservative investment. This is indicated by the fact they are included with governments and municipals as the permitted investment for trust funds in those states whose laws are restrictive. An analysis to determine the investment position of rails would take into consideration the capital structure, valuations, physical conditions, location and earnings. Through governmental requirement there are sufficient available data supplemented with frequent published reports to make such analysis possible; and through recent Federal legislation, investors in railroad securities are afforded an added protection. The principle of the Transportation Act of 1920 practically assures a fair return upon capital investment.

Telephone and telegraph, gas, water, electric light, power and traction are the public utilities. They possess characteristics which make the industry a desirable field for investment. They provide a service indispensable to a modern living. They are usually non-competitive. They are on a cash basis. They are little affected by commercial fluctuations. They enjoy a remarkable stability of business, and the trend of their earnings is constantly upward.

There are certain tests which might be applied to public utility bonds to determine their soundness as a desirable medium for investing. The utility should operate without competition and should satisfactorily serve its community. It should have a suitable franchise, which should exceed the life of the bond by at least five years. The bonded debt should not exceed one and one-half times the capital stock, nor two-thirds the property value. The interest requirement should be earned at least twice for the past five year period. The bonds should be secured by senior mortgages. The issue should be of sufficient size to insure something of an active market. Utility bonds, which possess these underlying elements, have found much favor with discriminating investors.

Industrial bonds involve a greater element of risk than governments, municipals, rails or utilities. There is a hazard in business, and there is an absence of governmental regulation and protection. The prudent investor will, therefore, select those companies which are engaged in industries whose earning power is inherently stable. He will prefer a corporation with a large fixed capital investment compared to its funded debt. He will choose securities based on essentials rather than non-essentials. He will do well to study production and commerce, for usually prices move upward as trade becomes prosperous and conversely. Few industrial corporations can demonstrate the stability of earning power that a good railroad or public

CHARLES C. GLOVER
Chairman of the Board

ROBERT V. FLEMING
President

WILLIAM J. FLATHER,
Vice-President

CHARLES C. GLOVER, Jr.,
Vice-President

AVON M. NEVIUS,
Vice-President

GEORGE O. VASS,
Vice-President and Cashier

H. G. HOSKINSON,
Vice-President

EARLE M. AMICK,
Assistant Cashier



F. C. BURROUGH,
Assistant Cashier

NELSON B. O'NEAL,
Assistant Cashier

B. GWYNN DENT,
Assistant Cashier

GEORGE F. RAINEY,
Assistant Cashier

RAYMOND G. MARX,
Auditor

R. EARLE HAYCOCK
Assistant Auditor

I. J. ROBERTS,
Secretary to the President

Trust Department

FRANK J. HOGAN

General Counsel and Trust Officer

GEORGE M. McKEE
Assistant Trust Officer

KENNETH F. BROOKS
Assistant Trust Officer

We invite the accounts of financial institutions as well as those of their friends who may be coming to Washington.

THE RIGGS NATIONAL BANK

OF WASHINGTON, D. C.

FOR NINETY YEARS

THE LEADING BANK IN THE NATION'S CAPITAL
RESOURCES, as of June 30, 1927, \$50,000,000

Established 1856

THE NATIONAL PARK BANK OF NEW YORK

214 Broadway

Park Ave. & 46th Street

Seventh Ave. & 32nd Street

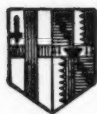
RICHARD DELAFIELD, *Chairman of the Board*
CHARLES S. McCAIN, *President*

Directors

CHARLES SCRIBNER
RICHARD DELAFIELD
FRANCIS R. APPLETON
CORNELIUS VANDERBILT
GILBERT G. THORNE
THOMAS F. VIETOR
JOHN G. MILBURN
WILLIAM VINCENT ASTOR
CHARLES S. McCAIN

JOSEPH D. OLIVER
LEWIS CASS LEDYARD, JR.
DAVID M. GOODRICH
EUGENIUS H. OUTERBRIDGE
KENNETH P. BUDD
FRANK L. POLK
GEORGE M. MOFFETT
JAMES FORRESTAL

Capital, Surplus and Undivided Profits over \$34,000,000.



A Complete Banking Service

The Midland Bank offers exceptional facilities for the transaction of banking business of every description. Together with its affiliations it operates nearly 2400 branches in Great Britain and Northern Ireland, and has agents and correspondents in all parts of the world. The Bank has Offices in the Atlantic Liners *Aquitania*, *Berengaria* and *Mauretania*, and a foreign branch office at 196 Piccadilly, London, specially equipped for the use and convenience of visitors in London.

MIDLAND BANK

LIMITED

HEAD OFFICE: 5 THREADNEEDLE STREET, LONDON, E.C. 2

Affiliated Banks: Belfast Banking Co. Ltd., Northern Ireland; The Clydesdale Bank Ltd., and North of Scotland Bank Ltd., Scotland.

Head Office:
LONDON, E.C. 3.

Over 1,700 Offices in England & Wales, and several in India and Burmah.

(31st December, 1926.) (\$5=£1.)
DEPOSITS, &c. \$1,738,267,290
ADVANCES, &c. \$973,787,595

The Bank has Agents and Correspondents throughout the British Empire and in all parts of the World, and is closely associated with the following Banks:—

The National Bank of Scotland Ltd.
Bank of London & South America Ltd.
Lloyds & National Provincial Foreign Bank Ltd.
The National Bank of New Zealand, Ltd.
Bank of British West Africa, Ltd.
The British Italian Banking Corporation, Ltd.

utility enjoys. For which reason the investor should include fewer industrials in his holdings than the other types of bonds, and

Steel-Strong

35
D I M E S

Colored
Tubular Coin Wrappers
Heavy Weight—Best Quality
in stock at all
Bank Stationers
Write for Catalog

The C.L. DOWNEY CO.
941-943 CLARK ST.
CINCINNATI, OHIO.

they should compensate with a higher interest return.

There are two distinct types of bond investors: the one is chiefly concerned with investing for security, the other with investing for profit. The investor for safety will choose only such bonds as have the highest security behind them, and consequently he will take a low yield. He will diversify his investments both as to industries and according to their geographical location. He will insist on a ready and a broad market for his securities, so if need be he can dispose of his holdings without delay.

He will buy only when he is in funds, regardless of business cycles or trade barometers. He is satisfied with his coupon so long as the quality of his bond does not decline.

The investor for profit, while giving full consideration to the question what to buy, is also influenced by when to buy. He knows the theory of the business cycle, which has been developed by learned economists. He knows it consists of four main periods: First, steady expansion of business; second, prosperity; third, liquidation; fourth, depression. Broadly speaking, securities begin their advance in time of de-

pression and continue until the latter part of the period of prosperity, when the downward movement commences and lasts nearly through the period of liquidation. The investor who recognizes those cycles may profit from year to year by changing from long-term bonds to short maturities and back again, and at the same time enjoy a high measure of safety.

The present market condition shows that bonds are higher today than any time since 1913. Before the war we annually absorbed only two and one-half billions of the new securities, and now we take \$8,000,000,000. There is a shortage of new issues, and it is likely to continue. There is so much capital for investment that good bond issues are quickly over-subscribed. The money market today has all the earmarks of distinct ease and gives clear promise of remaining in that condition for some time to come. Cheap money means high priced bonds. Each day brings forth a new crop of investors with ever-increasing purchasing powers. We have acquired as a basis of our credit a stock of gold equal to half the world's visible supply. Each and every existing condition promises a continued upward trend of bond prices, subject only to minor reactions.

A Few Pointers

IN the formulation of an investment program the investor might well keep in mind certain general fundamental principles. The higher the rate, the lower the security, is applicable to bonds as to other types of investment. If large interest returns are required, he must forego something of safety or something of marketability, etc. His investments might prudently be a compromise between the desire for income and the necessity for other fundamental qualities.

Do not keep all the eggs in one basket. While diversification affords no substitute for the use of intelligence in selecting securities, it does, in a measure, protect against the consequence of unforeseen misfortune in business. Commitments as to the type of bond, the geographical location and the maturities should be distributed.

A bond may be known by the company it keeps. Reputable high grade investment houses carry their responsibilities to their customers very seriously. Their advice and recommendations are entitled to considerable weight. The investor must have confidence in the opinions of some financial experts, but they should be chosen with care.

Do not guess when investing. Analyze the relative merits of a bond. Scratch the surface and see just what is behind it. Scrutinize the company's past record; investigate its present management; try to visualize its future welfare. Do not try to guess the exact month to buy nor the exact month to sell. Business trends and price swings are not confined to single months, nor to single seasons. Do not try to speculate. It is entirely outside the province of banking.

Without further recapitulation, the statement might be made that, because there is available today such an abundance of vital information concerning investments, the investor can, with reasonable certainty, keep his funds profitably and prudently employed.

School Savings

(Continued from page 336)

is in many cases a lack of understanding on the part of the husband or wife, or both, of the part money plays in human relationship. Benjamin Franklin stated that once the financial position of his home became easier his wife had a better temper and slept better at night.

Already, in the states of California, Connecticut, Illinois, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Washington, and Wisconsin, school savings have assumed really large proportions. In seven of these states, gross deposits for the year passed the million mark. In Pennsylvania it was in excess of \$4,000,000, and in New York it exceeds \$3,000,000. In many of the districts of these states the parents and children are advised at the opening of the school year that the object of school savings banking is to give the children a knowledge of the value of money and judgment in its use.

The whole matter, as it concerns patriotic Americans, simmers down to this simple proposition: Are we satisfied in this democracy to follow simply the European countries into the shadows—old-age pensions and unemployment doles—or do we rather prefer to continue the work for our people's personal independence, achieved through a knowledge of income management which in its essence is simply the culminating subject making possible the widest utilization of the instruction now given in the public schools at a tremendous cost.

The training contemplated under the term of school savings is no panacea. It will not make adepts of inepts. It will not make experts of the mediocre. In no case can it materially improve the condition of those persons unequipped naturally as to mentality. It does give promise, however, of acquainting normal children with the simple problems involved in income management at a time when their habits have not become fixed.

America has been so rich in natural resources that emphasis has been placed upon the making of a fortune quickly rather than upon the science of investment. As a result few persons know anything about the wise investment of money.

What is the reaction of the school to the teaching of school savings? In those states where installations have been most frequent, opposition has practically ceased. Opposition is found only in those states where installations are infrequent or of a poor quality.

Early in the eighteenth century, when the merchant vessels of Great Britain were hampered in their sailing by reason of inaccurate chronometers, and a vessel sailing from Plymouth or Liverpool had difficulty in finding her position at sea or her home port again, Parliament offered prizes, aggregating about \$100,000, to the person or persons who could manufacture a chronometer which would keep time with accuracy. John Harrison won the prizes after many years of work. Experts say that his success was due rather to refinements of manufacture than to the development of new principles.

So it is with income management, known generally as school savings. The materials

A Reliable Service

in

Listed and Unlisted Securities

Our Unlisted Securities Department is composed of the following divisions, each being in charge of a specialist:

Railroad Bonds Public Utility Bonds Public Utility Stocks	Foreign Govt. Bonds Bank and Insurance Stocks Industrial Securities
--	--

Canadian Govt. and Corporation Securities

PYNCHON & CO.

Members

<i>New York Stock Exchange</i> <i>New York Curb Market</i> <i>New York Cotton Exchange</i> <i>New York Produce Exchange</i> <i>New York Cocoa Exchange</i> <i>N. Y. Coffee & Sugar Exchange</i>	<i>The Rubber Exchange of N. Y.</i> <i>Chicago Stock Exchange</i> <i>Chicago Board of Trade</i> <i>Winnipeg Grain Exchange</i> <i>Liverpool Corn Trade Assn.</i> <i>Liverpool Cotton Assn., Asso. Mem.</i>
--	---

111 Broadway	New York
<i>Chicago</i>	<i>Liverpool</i>
<i>Milwaukee</i>	<i>London</i>

Direct private wires to the principal markets of the United States and Canada

BROWN BROTHERS & CO.

Established 1818

1531 Walnut Street PHILADELPHIA	59 Wall Street NEW YORK	60 State Street BOSTON
------------------------------------	----------------------------	---------------------------

Investment Securities
Letters of Credit
Foreign Exchange

BROWN, SHIPLEY & COMPANY

Established 1810

Head Office Founders Court, Lothbury LONDON, E. C.	Office for Travelers 123 Pall Mall LONDON, S. W.
---	---

are at hand: Reorganization in some places, refinement of method in many cases may be necessary. The utilization of psychology to the same degree as has been done in salesmanship will bring equally good results in income management.

As the project is coming to be better understood, manuals and textbooks are beginning to appear. Bankers' associations, service organizations, women's clubs are fos-

tering it. The important thing now, however, is that those schools which, through lack of interest, too great inertia, misunderstanding of meaning, or for any other purpose, have refused or neglected to install school savings shall do so at the earliest practicable time, so that the children, who yearly are crowding from the schools into industry, shall not be handicapped at the very beginning of their careers by lack of information.

SECURITY

is the NAME
to REMEMBER

WHEN A VALUED CUSTOMER is leaving for Southern California, remember that a letter or card of introduction to Security Trust & Savings Bank will secure for him or her special attention and courtesies, for which that patron will be grateful to you.

SECURITY BANK has 54 offices and branches, covering the cities and towns which comprise the Los Angeles Metropolitan Area. Wherever your letter may be presented, it will bring to the person introduced more than ordinary courtesies from a bank with more than ordinary facilities.

SHORT TERM INVESTMENTS FOR BANKS

OUR short term obligations have been purchased by more than five thousand banks in the United States.

GENERAL MOTORS ACCEPTANCE CORPORATION

Executive Office • 250 WEST 57TH ST. • New York City

*Capital, Surplus & Undivided
Profits • \$50,626,000*

Selling Bank Services

(Continued from page 346)

The arrangements for the preparation of copy are very simple: the advertising department of each bank in turn takes charge of the preparation of the copy for two months at a time.

The qualifications of the various trade, religious, fraternal, and other periodicals published in the New Orleans territory are very carefully investigated by the committee, and when by unanimous action it is decided to use any one of these papers, a joint contract is made similar to that which obtains with regard to the newspapers. Whenever, after a thorough analysis, it is

determined that any particular paper does not offer sufficient advertising value, the banks agree not to advertise in it. It is a well-known fact among all buyers of advertising that the woods are full of "fake" and "graft" advertising propositions of all kinds.

It is equally well known that many well-meaning people interested in entirely worthy enterprises of a public or semi-public or charitable nature are so shortsighted as to offer space in programs, year books, church bulletins, school and club papers, fraternal publications, catalogs, etc., ad infinitum, ad nauseum endeavoring thereby to shoulder off the cost of such publications on to easy, good-natured but unbusiness-like advertisers.

One of the functions of the New Orleans

Associated Banks' Advertising Committee is to eliminate this undesirable practice, and those who realize how firmly embedded these gentle forms of "graft" have become in the business world can understand that it has been no easy job. Every application for this form of "advertising" is required to be made in writing and submitted to some member of the committee, who, in turn, presents it for consideration at the next meeting, where in due course it usually is swiftly but painlessly decapitated. And it can be added that the number of these applications has materially decreased since the committee began to function.

The actual cost of the joint advertising campaign in the New Orleans newspapers approximates \$1,000 per month, or \$12,000 per year. Each bank pays a proportion of this total based approximately on the proportion that its deposits bear to the total deposits of all the banks. Bills are rendered by the several newspapers in total, and one of the banks acts as a clearing house, makes the necessary analyses, and then submits the bills to the several banks.

By this means the New Orleans banks are telling to the New Orleans public the story of continuous, intelligent thrift, and the story of competent and confidential fiduciary service in a big, broad-minded way, continuously, logically and effectively. Moreover, the banks are thus getting larger space in the newspapers at a considerable saving in individual cost.

Obviously, because the advertisements are not keyed and are all necessarily general in their nature, it is impossible to trace specific results from this advertising, but the New Orleans banks are well satisfied with the apparent results.

The Results Obtained

THE fiduciary business of a trust company naturally is hard to measure, but it is interesting to note that since the New Orleans banks began their joint advertising campaign back in 1919, the amount of fiduciary business handled by the New Orleans banks has more than trebled.

By the same token, during the same period, the savings deposits in the New Orleans banks have more than doubled.

Of course it is idle to assume that all of this increase in business has been due to the cooperative advertising carried on by the local banks, but it cannot be denied that during the time that this cooperative effort has been in force New Orleans banks have enjoyed a far greater growth than ever before in the history of the city, and New Orleans is more than 200 years old.

Most of this increase can be credited to the growth of the city and its environs, and to the development of its port activities, but New Orleans banks are so well satisfied with this community endeavor that they propose to continue it indefinitely.

Furthermore, in advertising to the people of their city and state in the cooperative method described, the New Orleans banks believe that, while serving themselves, they are also performing a worth-while public service in a larger, broader and more altruistic sense, a service that will produce future dividends in a prosperous, substantial and intelligent citizenship.

Fruits of Capital

(Continued from page 311)

that crisis when minutes meant not only dollars, but countless human lives.

While the prices of other commodities have risen in twelve years from 100 to 250 per cent, the average price of the electric lamp has increased less than 1 per cent.

This achievement is the result of the long and patient research made possible by combined capital, the value of whose contributions to scientific invention may be appreciated when we realize that its expenditure in research work of this company alone is \$15,000,000 annually.

Fascinating Field of Research

IN the Westinghouse laboratory is an apparatus which tests pieces of steel magnetically without destroying or even marking the specimen.

On another floor a glass worker is making small glass bulbs no larger than peanuts. Inside each is a spot of metallic potassium driven actually through the glass by electric forces after the bulb is sealed. If a light ray falls on the spot of potassium a cloud of electrons flies out from the metal as bees from a beehive when you remove its top.

And what a marvelous atom the electron is! From an area of a filament no larger than a pinhead there escape each second more than a million billions of electrons.

In a barely visible spark from the back of a cat there are more electrons than you could count in a million years. From this you may appreciate the delicacy of the task and the refinement of the research in which this enterprise is engaged.

When we consider the unlimited power which these combined atoms contain, and realize that they are moving the world today, we can understand how electrical engineers dream of the discovery of a perfect insulator, a coating that will permit us to feed six or eight million volts of electricity into an insulated wire and have it come out safely at the other end.

Solving Life's Mysteries

THE persistence of combined capital in solving these mysteries commands the world's admiration.

This research work is one of religious intensity, and upon its continuance depends much of the future course of the world's industry.

Another marvelous invention makes possible the carrying of electricity in one direction and not the other, a one-way electric highway.

After years of research in this laboratory, an outside inventor recently chanced upon the discovery which makes this wonder possible.

The fruit of combined capital's research is also found in the submarine detector, the wireless messenger that baffles space and time, new motors for industries, more efficient electrification of steam roads, rural electric service extension to farms, and domestic electric appliances from refrigeration to radio.

Buy Securities with a Profitable Future

Some stocks and bonds have had their day—and, while sound, offer no further opportunities for real profit. Others are slipping backward—sure to bring loss to holders.

But there are certain securities with a profitable future. Our staff of investment experts and market analysts constantly investigate facts and figures which locate such securities and result in profits for our clients.

Write today for our new booklet
"Managing Investment Funds" and
latest "Security Market Review"

INVESTORS SUPERVISORY SERVICE

Suite 1040 FIFTEEN WILLIAM STREET, NEW YORK

AMERICAN BANKERS ASSOCIATION FINANCIAL STATEMENTS (CREDIT APPLICATION BLANKS)

Designed and Approved by the
CLEARING HOUSE SECTION
AMERICAN BANKERS ASSOCIATION

Three revised Forms of 4 pp. each 8½ x 11.

No. 2. Individual, Manufacturing or Mercantile.

No. 3. Corporation.

No. 4. Partnership.

100	300	500	1000
\$4.00	\$9.00	\$12.50	\$20.00

No. 1. Farmer 2 pp., 8½ x 11.

100	300	500	1000
\$2.00	\$4.50	\$6.25	\$10.00

Imprinted with bank name, small extra charge.

Specimen free on application.

Send 20 cents for set of four (4).

M. B. BROWN PRINTING & BINDING CO.
37-41 Chambers St., New York, N. Y.

One of the outstanding research institutions, the direct result of combined capital and public spirit, is the Mellon Institute at Pittsburgh, founded by Andrew W. and Richard Beatty Mellon.

Radio's Romance

THE marvels of radio are treading so rapidly upon each other's heels that the early sacrifices of such pioneer promoters as Thomas Hartley Given and Hay Walker, the backing of whose combined capital brought millions of dollars to its rescue as it struggled through infancy, is almost a forgotten story.

In the world of aviation Langley may have been a dreamer or a genius, but the Wright Brothers were both. They all served their purpose.

But without detracting from the scores of individual inventors, combined capital and the financial sacrifices being made by Henry Ford and scores of others to remove the perils and add to the practical uses and pleasures of aviation at this very hour is one of the finest manifestations of faith in the future that is marking the present age.

Guaranteed Safety

and 6%

EMPIRE BONDS combine a degree of safety and liberal yield unmatched in mortgage loans:

- Guaranteed by one or more strong surety companies.
- Legal for trust funds.
- Independently trustee by a large bank or trust company.
- Secured by a closed first mortgage on income-earning real estate in leading American cities.
- Yield 6%.

Make this strict standard of safety and income your own standard for profitable investments.

Empire Bonds

Empire Bond & Mortgage Corporation
National City Building

42nd Street at Madison Avenue, New York

MILITARY AND POLICE HOLSTERS
FOLSOM PATENT

Complete Equipment for
Bank Police, Watchmen
and Messengers
REVOLVERS
Riot Shot Guns
Sub-Machine Guns
Holsters, Whistles, Etc.

Write for complete Catalog
"B" of Police Goods and
Holsters

H. & D. FOLSOM ARMS CO.
314 BROADWAY NEW YORK

A.P. 332

A. 132

OUR Trading Department is connected with the principal security markets by direct private wires. It is equipped to render prompt and efficient service, including quotations on bonds and stocks, listed and unlisted.

Inquiry solicited

A.C. ALLYN AND COMPANY

Incorporated

67 West Monroe St. CHICAGO Phone Randolph 6340
 New York Boston Philadelphia Detroit
 St. Louis Milwaukee Minneapolis San Francisco

Municipal Bonds

Safety of Principal

All Maturities

All Denominations

Tax Exemption

4½% to 6.00%

*Write for offerings
and Bank discounts.*

The Hanchett Bond Co.

Incorporated 1910

MUNICIPAL BONDS

39 South La Salle St., Chicago
 New York Detroit Philadelphia St. Louis

Bank Stocks

Write for B. T. I.

Guttag Bros.

16 Exchange Place New York



**NOT A
FIXED TRUST**

**Common Stock
Trust Shares**
 (An Investment Trust)

Substitutions may be made in the underlying portfolio of 100 high grade stocks, under carefully drawn provisions of the Trust Agreement under which Chatham Phenix National Bank and Trust Company, New York, is Trustee. There are 10 rigid conditions governing substitutions.

This flexibility insures the maintenance of a high quality of holdings.

Circular B.A.-63-A on Request

United States Shares Corporation
 Fifty Broadway New York

HARRIS TWEED
 DIRECT FROM THE MAKERS
 Hand-Woven, High Class Material, an Aristocrat of Tweed for Golf and All Sports Wear
 Patterns free on request—stating shades desired
 NEWALL 330 Stornoway, Scotland
 SUIT-LENGTHS CUT TO ORDER

Machine Relieves the Man

COMBINATIONS of capital have effected countless improved methods in various other lines of production.

These include the increasing utilization of machinery and power; the introduction of various sorts of labor devices and mechanical methods; the growth of mass production of standardized articles; the elimination of waste; the intelligent discounting of the future market requirements by planning production in relation to general business conditions and coming need; and other economies resulting from improvements in methods and management.

Another result is brought about by shifting production from industries dependent upon manual labor to industries more susceptible to mass production through machinery.

Outstanding cases are the manufacture of motor vehicles and the producing, shipping and refining of petroleum. Then comes the substitution of new products for old, such as cement and steel for lumber and other building products, cigarets for cigars, and baker's bread and factory canned goods for the old-fashioned products of the housewife.

Since the machine does not have to have food to eat, a house to sleep in and a family to raise, the absence of all these fixed charges must in the end reflect their benefits upon society in general.

Capital and the Farmer

THE effects of less pretentious combinations of capital and wider investment units are also revealing themselves in the agricultural world.

While farmers are drifting to the cities, farms themselves are not being abandoned.

A recent study of a single Kansas county discloses the fact that in twenty years the number of farms decreased by 144. This involved a loss of 720 in the farm population, and yet not a single farm was abandoned.

The number of farms less than 260 acres greatly decreased, because with modern machinery it did not pay to farm such small areas. Those between 260 and 1000 acres greatly increased, indicating a merger of the smaller farms.

In 1900 all farm implements in the county were valued at \$474,000, divided among 1940 farmers, while in 1920 the farm implements were valued at \$2,171,000, with 144 less farmers than 20 years before.

In a word, while the number of farms decreased 7½ per cent, the value of farm machinery increased 357 per cent.

The answer is that the added efficiency of the implements brought at reasonable cost to the farmer's door by the International Harvester Company, coupled with the enlarged investment of the farmer himself in extended agricultural areas, is furnishing increased benefits to the country at large in spite of the continuous decrease in farm population.

The Telephone

NOWHERE, in all the records of fact or fable, is there a more fascinating story than that of the development of the telephone.

The American Telegraph & Telephone

Company, the market value of whose stock is almost two billion dollars, commands our confidence and arouses our admiration because from its inception it has been illustrating in countless ways the virtues of combined capital.

Eighteen million telephones making neighbors of us all. England, Scotland, Wales and Mexico brought within speaking range of the remotest hamlet in America. In its struggle for better service it has expended four hundred million dollars in a single year.

Millions upon millions of dollars have been expended through the years in scientific and other research work for the benefit of mankind.

Let the carping critics and political pygmies rant as they may against combined capital. In their never ending struggle to promote their own fortunes by engendering hatreds among men they will continue to contribute to the world's confusion.

Our answer is that out of all the forces at work in America today there is looming a new era, a new relationship between industry and individuals, between combined capital and community. An era of understanding, an era of healthy, harmonious and helpful cooperation, out of which are being evolved higher standards of living and an ever increasing diffusion of wealth and comfort.

A Silent Revolution

IN a word, we are passing through an industrial and social revolution, and the glory of it all lies in the fact that it is a peaceful one.

God's children are not being crucified head downward upon a cross; no torture chambers are emitting cries of pain; no bastilles are being stormed by angry mobs; no streets are lined with gibbets; no rivers are running with blood—but a revolution born of cooperation, of light and love is scattering the fruits of prosperity and the flowers of enduring peace as it travels on.

Vicissitudes have we—yes. Sorrows have we—yes. The lingering suffering of disease—yes. The penalizing shame of sin—yes. The humiliating handicaps of ignorance—yes. But all of these are constantly decreasing as the days go by, for with every hour the magic touch of man's genius is lifting our burdens; plagues are passing away; sin is casting a smaller shadow. An all-conquering science is alleviating human suffering and prolonging man's days on earth. With every sound of the school bell ignorance is disappearing, while the chimes from the church towers on every highway are telling the world anew of a closer brotherhood among men.

But our task is not complete.

We must toil as we travel on and build as we go.

When your work and mine is done our fertile fields will blossom as the rose; our blazing furnaces everywhere will be lighting up the night; our mill wheels will be mingling their merry whirl with the music of the spheres; our products will burden cars that plunge at demon speed across the plains and weigh down a thousand vessels that ride our inland waters as they go singing to the seas, and sail in turn on their mission to meet the

What would happen— if a gun was fired in your bank?



Think of the danger of wounding customers, employees or pedestrians on the street from ricocheting bullets, the ensuing panic and embarrassment from gun play.

Leading bankers are avoiding such a possibility by equipping all guards with

Federal Gas Billies

Operates as quickly as a pistol. Instantly effective. It does not injure. Results wear off in fifteen to twenty minutes. The Tear Gas can be quickly and easily cleared from the bank. Just the weapon for guards, messengers and tellers. Thousands now in use.

Write for literature fully describing these Billies and other Federal Gas Equipment.

FEDERAL LABORATORIES, Inc.
1631 Liberty Ave., Pittsburgh, Pa.
Branches in Principal Cities

Why We Advertise to BANKERS

Because we want all of them to know the real sport they can have with the most talked of gun that has appeared in years.

The CROSMAN .22 RIFLE

When your friends come over show them some real sport with a Crosman. The gun that makes absolutely no noise, never needs cleaning, has an ammunition cost 1/3 that of powder rifles, accuracy unsurpassed by any other rifle. The power is adjustable for indoor shooting with same amazing accuracy as in the field.

POWER Without Powder

Ask your dealer to demonstrate this rifle to you or write for our Free illustrated booklet "Target and Game Shooting."

Crosman Arms Co.,
409 St. Paul Street,
Rochester, N. Y.



Bureau of Canadian Information

THE Canadian Pacific Railway, through its Bureau of Canadian Information, will furnish you with the latest reliable information on every phase of industrial and agricultural development in Canada. In our Reference Library at Montreal is complete data on natural resources, climate, labor, transportation, business openings, etc. Additional data is constantly being added.

DEVELOPMENT BRANCH

If you are interested in the mining wealth and industry of Canada or in the development or supply of industrial raw materials available from resources along the Canadian Pacific Railway, you are invited to consult this Branch. An expert staff is maintained to investigate information relative to these resources and examine deposits in the field. Practical information is available as to special opportunities for development, use of by-products and markets, industrial crops, prospecting and mining.

"Ask the Canadian Pacific about Canada" is not a mere advertising slogan. It is an intimation of service—without charge or obligation—that the information is available and will be promptly forthcoming to those who desire it.

Canadian Pacific Railway Company

Department Colonization and Development
J. S. DENNIS, Chief Commissioner. Windsor Station, Montreal, Can.

wants of mankind in the markets of the world. And those for whom we have toiled, for whom we have pierced the mountains, spanned the valleys and laid low the hills; for whom we deepened the channel, widened

the roadway, and brought the prairies' golden harvest to the silver shores of the sea—will thank God for their heritage as they lead the world in the bannered march of crowned humanity.

Report of General Counsel

(Continued from page 352)

aside from this the practice of taxing intangibles in a foreign jurisdiction adds very much to the delay and expense of handling estates. Such reciprocity legislation already exists in a number of states, but a cloud has been thrown upon the campaign for the promotion of such legislation by a recent decision of the New York Court of Appeals in the case of *Smith v. Loughman* (July 20, 1927), which held that the New York statute (known as the Matthews Flat Rate Plan), under which taxation at a flat rate was imposed upon the estate of a decedent resident of Connecticut, created a discrimination against the estates of resident decedents of New York in violation of Section 2 of Art. IV of the United States Constitution, whereby "the citizens of each state" are declared to be "entitled to the privileges and immunities of citizens in the several states." In the opinion of the Attorney General of New York, this decision of the Court of Appeals not only makes unconstitutional the tax on estates of non-resident decedents under the Flat Rate Plan, but, under the principle of the decision, the exemption from taxation of the estates of non-resident decedents in states which have like reciprocal exemption provisions is also unconstitutional as a discrimination against resident decedents. A question is, therefore, raised as to the constitutionality of reciprocal exemption statutes in a number of states which will remain in doubt until the Supreme Court of the United States, to which tribunal the case has been appealed, makes a final decision. Twenty-two states have already adopted the reciprocity plan, and it is unfortunate that for a time at least there is danger of these states going back to the old system of taxation with all its evils of multiple taxation.

Revision of Credit Form

DURING the year the General Counsel has been associated with a committee of the Clearing House Section in the revision of the credit forms recommended by the American Bankers Association. After careful study and an extensive correspondence, new revised forms have been completed for (1) corporations, (2) partnerships, and (3) individuals, manufacturing or mercantile. No revision has been made of the farmer form. These forms will be presented for approval at the forthcoming meeting of the Clearing House Section.

Insurance Work

THE General Counsel during the year has cooperated with the Insurance Committee in the framing of a revised form of Bankers' Blanket Bond. A number of conferences have been held with the secretary and members of the committee, and many technical problems discussed. His office has been called upon in a number of instances where banks have sustained losses, to interpret provisions as to coverage afforded by the Standard Form of Bank Burglary and Robbery Policy, the different forms of Bankers' Blanket Bond, and the Forgery and Alteration Policy.

The facilities of the office of the General Counsel have been extended to the individual membership in the solving of some 772 legal problems submitted for opinions during the year. The published Digest of Legal Opinions has been of great aid in facilitating this work.

Many members of the Association are probably not aware of the vast amount of legal annotation work carried on during the year in the General Counsel's office in order to supply promptly up-to-date information and advice upon any question which is presented by any member in any state. It is part of the routine of the office to read over every decided case in the higher courts of all the states and also all the new session laws in every state, and new acts of Congress, and to annotate the office copies of the Digest with the points of such decisions and with reference to the statutory legislation. It is also part of the work to annotate the volumes of Compiled Statutes or Public Statutes of all the states with the amendments, repeals and new enactments made each year by the legislatures. As a result, the office has at ready command all the law down to date bearing upon the thousands of legal problems contained in the Digest as well as all the statutory law of the nation, both state and Federal.

Change in Form of Trade Acceptance

THE value of this service of prompt scrutiny of all newly decided cases of the higher courts of the different states is exemplified in the notation of a decision, this year, by the Supreme Court of Texas, following a like decision of the Supreme Court of Florida, holding that the Standard Form of Trade Acceptance was now non-negotiable by reason of the clause:

"The obligation of the acceptor hereof arises out of the purchase of goods from the drawer."

This decision was immediately brought to the attention of the General Counsel of the Federal Reserve Board with the suggestion that the clause be changed to conform more exactly to the provision of the Negotiable Instruments Law that an instrument is negotiable though coupled with "a statement of the transaction which gives rise to the instrument," and that the clause in the acceptance be made to read:

"The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer."

As a result, the Federal Reserve Board has approved and recommended a new standard form containing the suggested clause, and such new form has been adopted and recommended by the American Acceptance Council.

The General Counsel has prepared, for preliminary discussion at the meeting of the Committee on State Legislation and State Legislative Council, a first tentative draft of proposed code to make uniform the conflicting and uncertain rules of law now prevailing in the various states, covering the subject of bank collections. There has long been a need for a uniform law on this subject, and the necessity therefore has been recently emphasized by recent decisions of the Federal Supreme Court and

of the higher courts of some of the states, which undermine the validity of established and necessary banking customs. Bank check currency, as compared with money currency, performs 95 per cent of the work of making payment and effecting settlement of commercial and business transactions, and while the rules regulating actual currency are simple and definite, the rules governing the collection and redemption of the bank check have their sources in forty-eight states, with uncertain and conflicting application. The burden and risk of converting the bank check currency into cash is, in a large measure, borne by the banks of the country. If it is possible to formulate a uniform code of rules, based on sound and equitable principles, by which the function of check collection can be carried on smoothly and without undue risk, and to have this code uniformly enacted in all the states, it will be a great boon to the banking and commercial world. Owing to the many phases of the subject and the complicated situations which arise growing out of the failure of collecting and payor banks, the technical frame-work of such a code provides a problem of some difficulty. A beginning has now been attempted and the first tentative draft will contain provisions (1) making the initial bank of deposit agent instead of owner of a collection item, (2) not responsible for correspondents' defaults, (3) regulating checks deposited on the same bank, (4) the legal effect of indorsements, (5) permitting the forwarding direct to drawee, (6) allowing the taking of bank drafts instead of cash in payment, (7) defining due diligence in forwarding and in cases of dishonor, items lost in the mails and the collection of paper taken in payment, (8) continuing the liability of the drawer of checks remitted for by an insolvent drawee, (9) regulating preferences of claims on failed banks, (10) defining certain duties of receivers of failed collecting banks, (11) regulating liens as between collecting banks, (12) providing general definitions.

Presumably most of the rules tentatively provided in the proposed code will be generally favored by bankers. Some of these rules, however—those covering the continued liability of the drawer and regulating the matter of preferences—present mooted questions and will probably result in differences of opinion.

The procedure contemplated is, first, to reach a preliminary agreement upon proposed provisions in the Code by members of the State Legislative Committee and Council, then to submit the Code to the General membership with annotations and explanatory notes for comment and criticism and finally present the proposed Code for approval of the Administrative Committee and Executive Council; and when approved, the Code to be urged by the State Legislative Committee and Council, through state organizations for passage by the respective state legislatures, according to the usual procedure.

This report will not be extended by any further enumeration of detail. There has been full cooperation by the office of the General Counsel with all the Divisions, Sections, Commissions, Committees and officers of the Association and harmonious relations throughout.

